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OUTPERFORMERS: HIGH-GROWTH EMERGING ECONOMIES AND THE COMPANIES THAT PROPEL THEM

SEPTEMBER 2018

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OUTPERFORMERS: HIGH-GROWTH EMERGING ECONOMIES AND THE COMPANIES THAT PROPEL THEM

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Jonathan Woetzel | Shanghai
Anu Madgavkar | Mumbai
Jeongmin Seong | Shanghai
James Manyika | San Francisco
Kevin Sneader | Hong Kong
Oliver Tonby | Singapore
Andrés Cadena | Bogota
Rajat Gupta | Mumbai
Acha Leke | Johannesburg
Hayoung Kim | Washington, DC
Shishir Gupta | Delhi

IN BRIEF

OUTPERFORMERS: HIGH-GROWTH EMERGING ECONOMIES AND THE COMPANIES THAT PROPEL THEM

Emerging economies are the engine of global growth, but the performance of individual economies varies considerably. In this research, we identify outperforming countries that have experienced strong and sustained growth, and focus on the economic policy choices and the often-overlooked contribution of large firms that have driven that growth. Key findings:

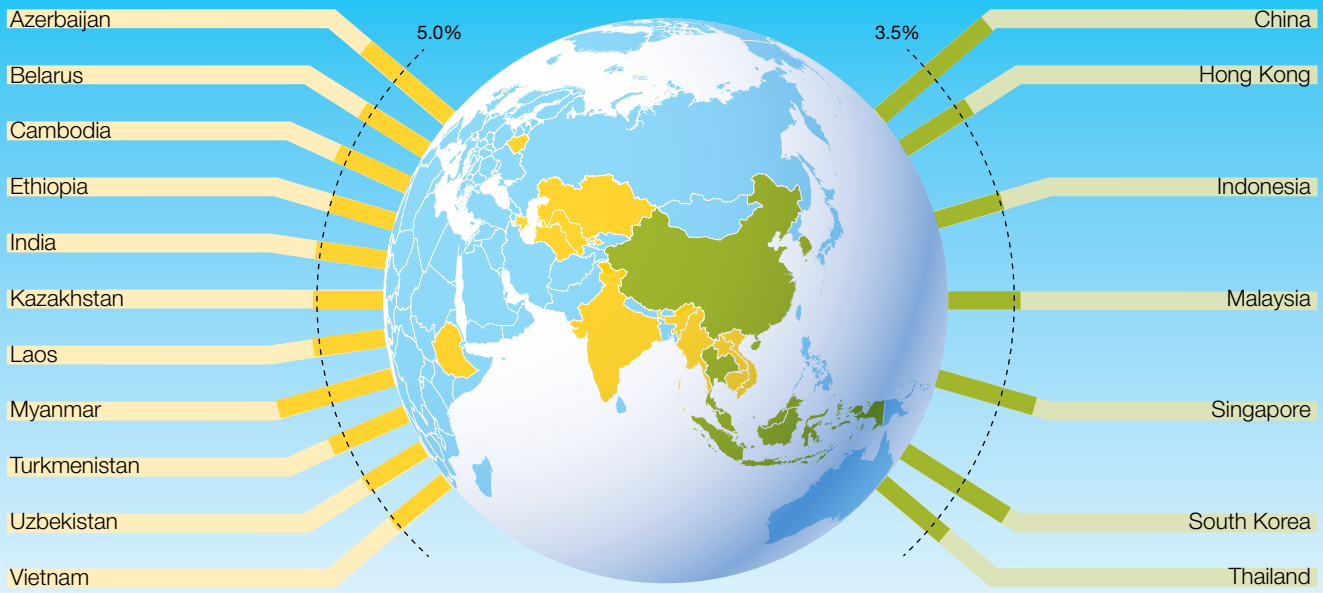
- Eighteen of the 71 emerging economies we studied outperformed global benchmarks and their peers by achieving more than 3.5 percent per capita GDP growth over 50 years or 5 percent growth over 20 years. They include long-term success stories such as China and Malaysia, recent high-growth economies such as India and Vietnam, and less heralded outperformers, including Ethiopia and Uzbekistan. These 18 countries have lifted about one billion people out of extreme poverty since 1990—730 million in China alone—and generated 44 percent of emerging market consumption growth between 1995 and 2016.
- Outperformers develop a pro-growth agenda across public and private sectors aimed at boosting productivity, income, and demand. Steps to boost capital accumulation, including (sometimes) forced savings, are a common feature, as are deep connections to the global economy. Governments in these countries have tended to invest in building competence, are agile and open to regulatory experimentation, and are willing to adapt global macroeconomic practices to the local contexts. Critically, their competition policies create an impetus for productivity growth, increased investment, and the rise of competitive firms.
- Large, competitive firms propel outperforming economies. On average, these economies have twice as many companies with revenue over $500 million as other emerging economies. Their revenue relative to GDP almost tripled from 22 percent between 1995 and 1999 to 64 percent between 2011 and 2016, and their contribution of value added to GDP rose from 11 percent to 27 percent in the same period, double the level among developing-economy peers. These firms bring productivity benefits by investing in assets, R&D, and job training, which create spillover effects for smaller firms. Large firms, in turn, benefit from the intermediary goods and services smaller companies provide through the supply-chain ecosystem.
- Competition and contested leadership in the private sector are key features of these dynamic economies, with the best-performing companies subject to fierce competition at home. Less than half (45 percent) of firms that reach the top quintile of economic profit generation manage to stay there for a decade, compared with 62 percent in high-income economies, a consistent pattern across eight sectors. The rewards for those that succeed are higher: the top 10 percent of firms in outperforming economies capture more than four times the share of economic profit as their peers in advanced economies.
- This competitive home environment has spawned innovative global players whose total return to shareholders is eight to ten percentage points higher than high-income peers. They derive 56 percent of their revenue from new products and services, eight percentage points more than advanced economy peers, and are 27 percentage points more likely to prioritize growth abroad.
- Extending the success of outperformers to all other emerging economies could add $11 trillion to the global economy by 2030, an approximately 10 percent boost equivalent to the size of China. Automation and shifting trade patterns, along with other global trends, present new opportunities. There are broad prospects for growth in services, a traditional engine of employment, and in manufacturing, which can also stimulate demand and productivity in other sectors. Despite evidence of premature deindustrialization, we estimate that some emerging economies could boost the share of manufacturing employment as much as four percentage points by 2030 while also increasing the sector's share of GDP by up to three percentage points.
- Success or failure has been regionally driven, as emerging economies are historically more alike regionally than in any other way. That said, every region has fast-growing countries and the potential to achieve better outcomes. Bangladesh, Bolivia, the Philippines, Rwanda, and Sri Lanka, among others, have exceeded 3.5 percent annual per capita GDP growth since 2011. Laying strong policy foundations and fostering the growth of large firms could elevate these and other countries to the ranks of future outperformers.

Lessons from outperformers

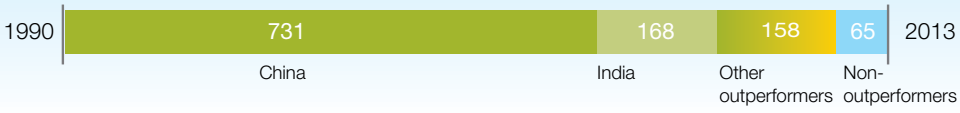
Of 71 emerging economies studied, 18 achieved rapid, sustained growth

11 **Recent outperformers achieved**
GDP per capita growth of more than 5.0% annually for 20 years

Long-term outperformers achieved **7**
GDP per capita growth of more than 3.5% annually for 50 years



Outperformers lifted 1 billion people out of extreme poverty in two decades, 95% of total
People lifted out of extreme poverty, million



Two factors driving outperformance

A pro-growth policy agenda ...

Measures that supported capital accumulation and ensured stability helped create a pro-growth agenda

Productivity

- Promoting competition
- Increasing total factor productivity

Income

- 3–5pp faster annual wage growth
- ~60% of growth in consuming classes in emerging economies

Demand

- ~30% of global goods trade in 2016
- 3pp faster annual consumption growth
- Rank highly for global connectivity

... and highly competitive large companies

Outperformers' large firms are:

More numerous

2x **as many large firms** for size of the economy compared with other emerging economies

More contested

55% **of firms in top quintile** are displaced from their ranks within a decade vs only 38% of peers in advanced economies

Outperforming rival firms in high-income countries

More successful
40%
higher total return to shareholders

Bolder innovators
8pp
more sales from new products

Quicker decision makers
32%
faster investment decisions

Aggressive growers
27pp
more cite entering new markets abroad as priority

Three global trends that can help all emerging economies achieve stronger growth

Rapidly evolving technology

Automation could increase labor productivity in emerging economies by 0.8–1.2%

Rising consumption from urbanization

Consuming class in 440 cities could account for almost 50% of global GDP growth by 2025

Growing south–south trade

11x increase in trade between China and other emerging markets between 1995 and 2016

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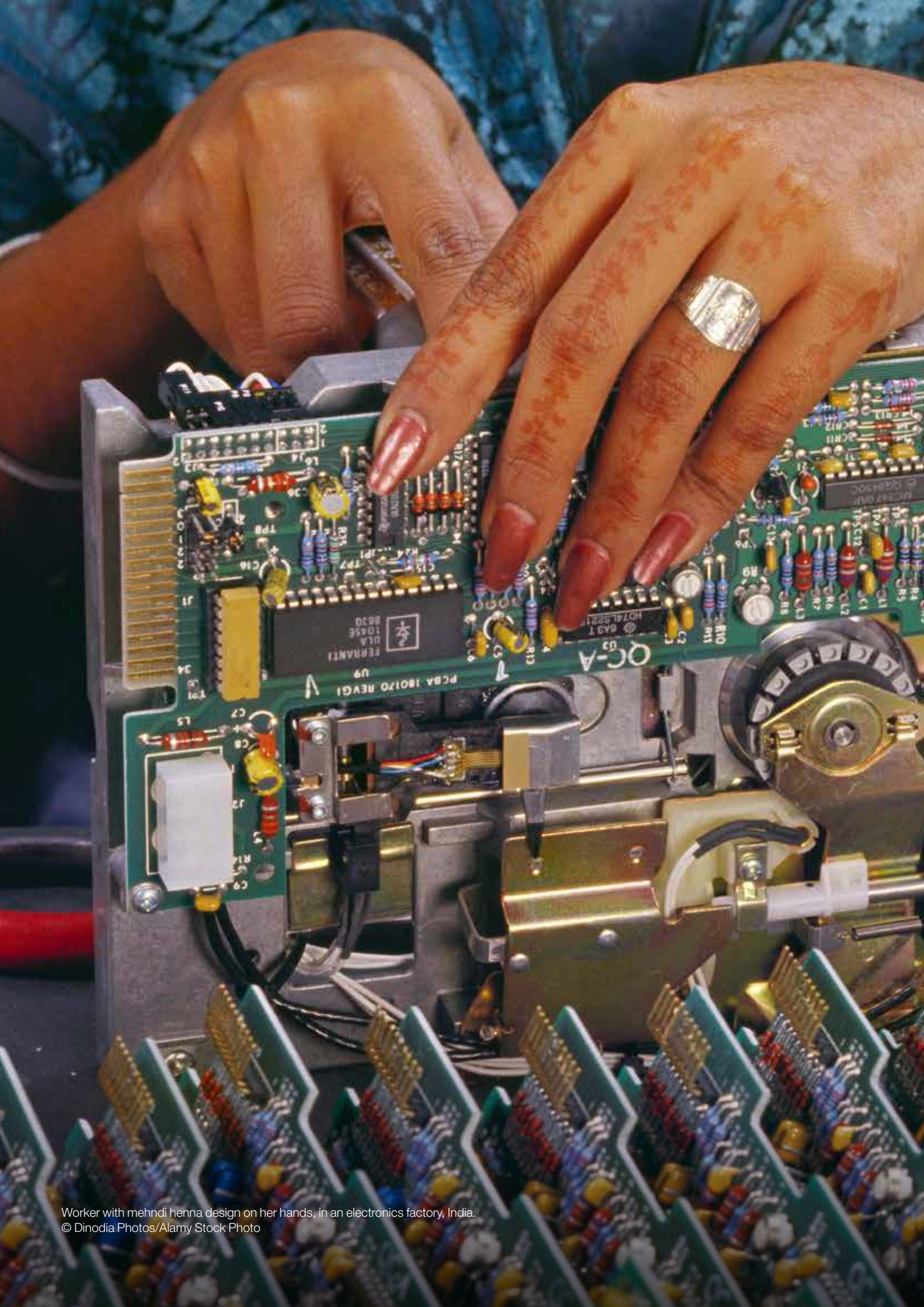


Worker with mehndi henna design on her hands, in an electronics factory, India.
© Dinodia Photos/Alamy Stock Photo

SUMMARY OF FINDINGS

Emerging economies have been a powerful engine of growth for the global economy during the past half century. Led by China and India, these economies accounted for almost two-thirds of the world's GDP growth and more than half of new consumption over the past 15 years. Yet the catchall term "emerging economies" is misleading, for within this large group of countries, economic performances vary substantially. While some countries have truly "emerged," achieving powerful and sustained long-term growth that has enabled these leaders to narrow the gap with high-income advanced economies, others have remained submerged, growing less strongly and steadily than the leaders, or falling behind.

In this report, we look at the long-term economic track record of 71 developing economies to identify the outperformers—and determine how and why they outperformed. We focus on the agenda of productivity, income, and demand that has driven exceptional economic growth in these outperformers, and examine the underappreciated but nonetheless standout role that large companies have played in driving that growth. These companies have fought their way to the top in a propitious but often competitive macroeconomic environment and are emerging as formidable global competitors. If more economies can apply lessons from outperformers and take advantage of changing global trends, including rapid technological change, opportunities for growth in emerging economies will be abundant across all regions—and top-performing firms that have thrived through the trials of contested leadership will be at the forefront of that growth.

Recent economic turbulence in several emerging economies has tested some investors' confidence. In this report, we take a long view of developing economies, looking back at their real performance over decades and looking forward to where they could be in 2030.

QUANTIFYING SUCCESS AMONG DEVELOPING ECONOMIES: 18 OF 71 COUNTRIES OUTPERFORMED THEIR PEERS AND GLOBAL BENCHMARKS

We analyzed the per capita GDP growth of 71 economies over 50 years, starting in 1965 (see Box E1, "Our categorization of developing economies"). Of these, we identified 18 as outperformers, about one in four.

Seven economies achieved or exceeded real annual per capita GDP growth of 3.5 percent for the entire 50-year period. This threshold is the average growth rate required by low- and lower middle-income economies to achieve upper middle-income status over a 50-year period, as defined by the World Bank.[1] That growth rate is 1.6 percentage points above the per capita GDP growth of the United States in the same period. The seven are China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea, and Thailand.

[1] The World Bank assigns the world's economies into four income groups: high, upper middle, lower middle, and low. We set the threshold growth rate for long term outperformers at 3.5 percent, which is the annual average growth rate required over a 50-year period for low-income and lower middle-income economies to achieve upper middle-income status. For low-income economies alone, the threshold growth rate is 4.3 percent, and for lower middle-income economies it is 2.8 percent. *The Data Blog*, "New country classifications by income level: 2016-2017," blog entry by World Bank Data Team, July 1, 2016, blogs.worldbank.org.

Box E1. Our categorization of developing economies

For our analysis, we started with a list of 218 countries tracked by the World Bank, then excluded 99 countries with fewer than five million people in 2016, a further 28 countries because of a lack of data, and 20 high-income countries.[1] Of the remaining sample of 71, we identified the 18 outperformers: the long-term outperformers over 50 years, which represented 24 percent of the world's population and 18 percent of global GDP as of 2016, and the recent outperformers, which represented 22 percent of global population but only 4 percent of worldwide GDP in 2016.

In most of the developing economies we studied, per capita GDP increased relative to the United States but by a lower margin than for the outperformers, or less consistently. While these middling economies shared some broad traits, they represent a range of performances. Some, such as Bangladesh and Ghana, have seen recent growth spurts; others, such as Bulgaria, Pakistan, and Tanzania, have grown more consistently, while the economies of a third grouping, including Argentina and Kenya, have been highly volatile.

Some emerging economies have underperformed, with their per capita GDP declining relative to the United States from 1965 to 2016. These countries include Lebanon, Russia, South Africa, Ukraine, Venezuela, Zambia, and Zimbabwe.

For several economic indicators, such as capital accumulation and total factor productivity, reliable data are not available for the 50 years we review. Where this occurs, we use the longest available time series of reliable data and state the time frame in the text and exhibits. We took the simple average of indicators across countries to avoid overriding the growth experience of smaller economies.

Our analysis is based on data up to 2016, and for the sake of consistent analysis it does not take into account more recent developments.

[1] We include Greece, Portugal, and South Korea in our analysis of emerging economies because the World Bank only classified them as high-income countries in the 1990s. We also include Hong Kong and Singapore, which were classified as high-income countries in 1987. See technical appendix for details.

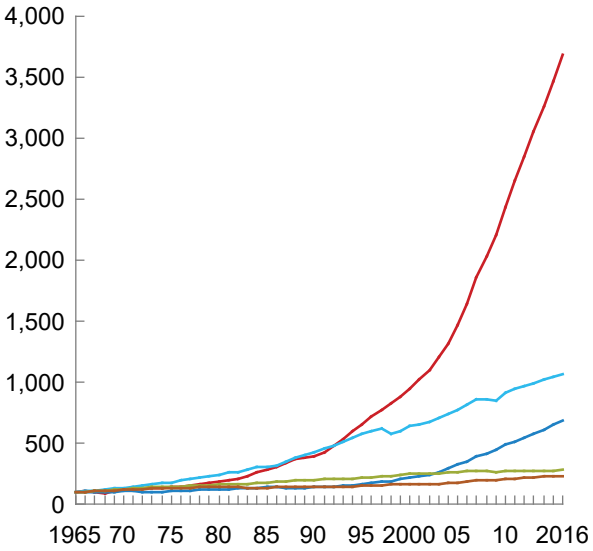
While the economic transformation stories of these Asian countries, especially China, have been widely studied (including by us), they remain remarkable in their scale and speed. Our analysis found a second group of 11 more recent, less heralded and more geographically diverse outperformers, across regions and income levels. These countries achieved real average annual per capita GDP growth over the 20 years between 1996 and 2016 of at least 5 percent. This was enough to lift themselves by one income bracket as defined by the World Bank—and 3.5 percentage points above the per capita GDP growth of the United States.[2] The 11 are Azerbaijan, Belarus, Cambodia, Ethiopia, India, Kazakhstan, Laos, Myanmar, Turkmenistan, Uzbekistan, and Vietnam (Exhibit E1).

[2] For recent outperformers, we set the threshold growth rate at 5.0 percent. Under the World Bank's income classification, low- and lower middle-income countries must attain average annual growth of 5.4 percent to move up one income level over a 20-year period. Growth of 3.7 percent is needed for the move from low to lower-middle income, while 7.1 percent growth is needed to rise from lower-middle to upper-middle income. Ibid.

Exhibit E1

GDP per capita growth among outperforming economies has far exceeded that of other emerging economies.

GDP per capita[1]
Index: 100 = 1965



Archetype	Compound annual growth rate, 1965–2016 %	GDP, 2016[2] % share	Population, 2016[2] % share
China	7.3	13	19
Long-term outperformers (excluding China)	4.7	5	6
Recent outperformers	3.9	4	22
High income	2.0	59	13
Non-outperformers	1.7	16	31

1 Calculated using GDP per capita (constant 2010 $) and based on simple averages.
2 Excluded economies account for 3% of global GDP and 9% of population.
NOTE: Figures may not sum to 100% because of rounding.

SOURCE: World Bank; McKinsey Global Institute analysis

These 18 countries not only showed exceptional average economic performance but also demonstrated consistency by exceeding the benchmark growth rate in at least three-fourths of the 50 and 20 years, respectively. Some other countries such as Brazil, Ghana, and Poland that have also experienced strong periods of growth did not make the cut, as they have gone through sharp downturns following the booms. Exhibit E2 shows our classification of the 71 emerging economies and, for outperformers and select others, highlights their progress across a range of economic performance dimensions that we consider in our analysis.[3] Overall we find little evidence to support notions of a "middle-income trap"—that is, that countries which relied for growth on low wages and technology adoption from higher-income nations could lose their competitive advantage as they become more prosperous and move up to middle-income status.[4]

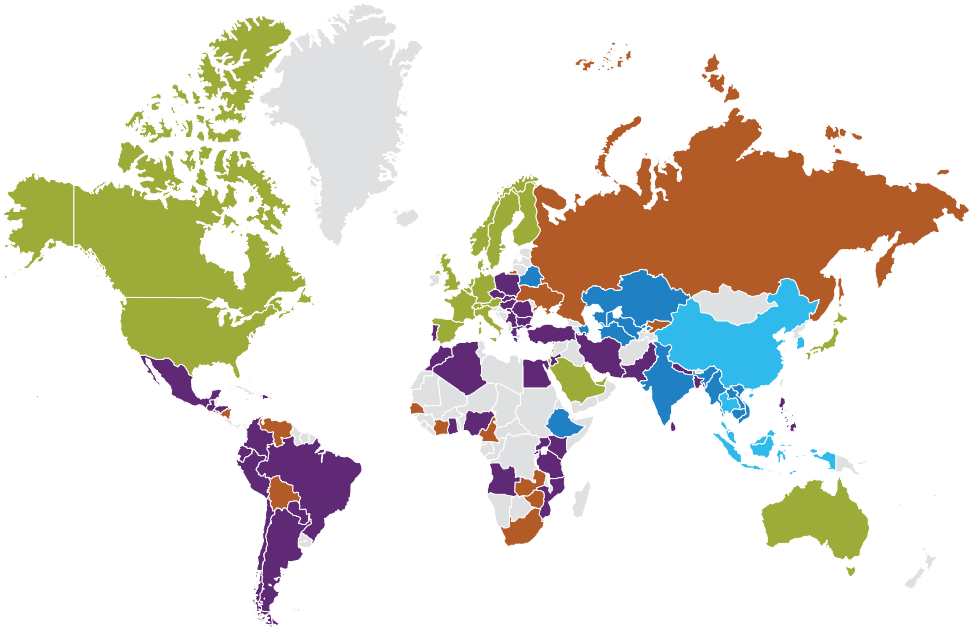
[3] Prior MGI research has shown that advancing the participation and role of women in the economy can give a significant boost to GDP, and this is also true of emerging economies. For this research, we did not explicitly include gender equality-related metrics in our economic performance indicators, as female participation in the labor force is heavily influenced by non-economic factors such as cultural barriers and household preferences about how to manage unpaid care work. In many emerging economies, therefore, we see a nuanced relationship between economic factors, like household income and urbanization, and progress on gender equality. See *The power of parity: Advancing women's equality in Asia Pacific*, McKinsey Global Institute, June 2018; *The power of parity: How advancing women's equality can add $12 trillion to global growth*, McKinsey Global Institute, September 2015.

[4] See, for example, Shekhar Aiyar et al., *Growth slowdowns and the middle-income trap*, IMF working paper WP/13/71, March 2013, imf.org; Pierre-Richard Agénor and Otaviano Canuto, *Middle-income growth traps*, World Bank policy research working paper number 6210, September 2012; and David Bulman, Maya Eden, and Ha Nguyen, "Transitioning from low-income growth to high-income growth: Is there a middle-income trap?" *Journal of the Asia Pacific Economy*, January 2017, Volume 22, Number 1, pp. 5–28.

Exhibit E2

Eighteen emerging economies sustained long-term GDP per capita growth, outperforming their peers.

N = 91 countries[1]



High income[2]

- Australia
- Austria
- Belgium
- Canada
- Denmark
- Finland
- France
- Germany
- Israel
- Italy
- Japan
- Netherlands
- Norway
- Saudi Arabia
- Spain
- Sweden
- Switzerland
- United Arab Emirates
- United Kingdom
- United States

Long-term outperformers[3]
Outpaced US growth consistently from 1965–2016

- China
- Hong Kong
- Indonesia
- Malaysia
- Singapore
- South Korea
- Thailand

Recent outperformers[4]
Outpaced US growth consistently from 1996–2016

- Azerbaijan
- Belarus
- Cambodia
- Ethiopia
- India
- Kazakhstan
- Laos
- Myanmar
- Turkmenistan
- Uzbekistan
- Vietnam

Middlers[5]
No relative change: No or inconsistent improvement relative to US from 1965–2016

Very recent accelerators

- Bangladesh
- Dominican Republic
- Ghana
- Mozambique
- Peru
- Philippines
- Poland
- Rwanda
- Sri Lanka

Consistent growers

- Bulgaria
- Chile
- Colombia
- Czech Republic
- Ecuador
- Egypt
- Hungary
- Morocco
- Nepal
- Pakistan
- Portugal
- Romania
- Serbia
- Slovak Republic
- Tanzania
- Turkey
- Uganda

Volatile growers

- Algeria
- Angola
- Argentina
- Brazil
- Greece
- Guatemala
- Honduras
- Iran
- Jordan
- Kenya
- Mexico
- Nigeria
- Paraguay

Underperformers[6]
Fallen behind: Slower relative growth than US from 1965–2016

- Bolivia
- Cameroon
- Côte d'Ivoire
- El Salvador
- Kyrgyz Republic
- Lebanon
- Nicaragua
- Russia
- Senegal
- South Africa
- Ukraine
- Venezuela
- Zambia
- Zimbabwe

1 We excluded economies with populations of less than 5 million in 2016 and those with limited data availability.
2 For the purposes of this report, we have defined high income economies as those that had gross national income per capita of $6,000 or more in 1987, when the World Bank first started classifying countries by income bands. The two exceptions are Hong Kong and Singapore, which are classified as outperformers in our report due to the high rate of growth during the period analyzed.
3 The long-term outperformer threshold of 3.5% compound annual growth rate of GDP per capita is the average growth rate required by low (4.3%) and lower-middle-income (2.8%) economies to achieve upper middle-income status over a 50-year period.
4 The recent outperformer threshold of 5% compound annual growth rate is derived from the average growth rate of 5.4% required by low (3.7%) and lower middle (7.1%) income to move up one income level over a 20-year period (from low to lower middle or lower middle to upper middle).
5 The middler threshold was between 0.95% and 3.5% compound annual growth rate over the period 1965–2016, or where economies did not meet the criteria for other cohorts. Very recent accelerators' GDP per capita growth outpaced long-term outperformers' (>3.6% compound annual growth rate) from 2006–16. Consistent growers' GDP per capita grew consistently (albeit slowly) from 1965–2016 with a low coefficient of variation. Volatile growers' GDP per capita regressed and/or exhibited a high coefficient of variation over at least one 10-year period from 1965–2016. Coefficient of variation defined as standard deviation of year-on-year growth divided by simple average year-on-year growth 1965–2016.
6 The underperformer threshold of <0.95% compound annual growth rate of GDP per capita over the period 1965–2016 is equivalent to <50% of the rate achieved by the United States over the same period.
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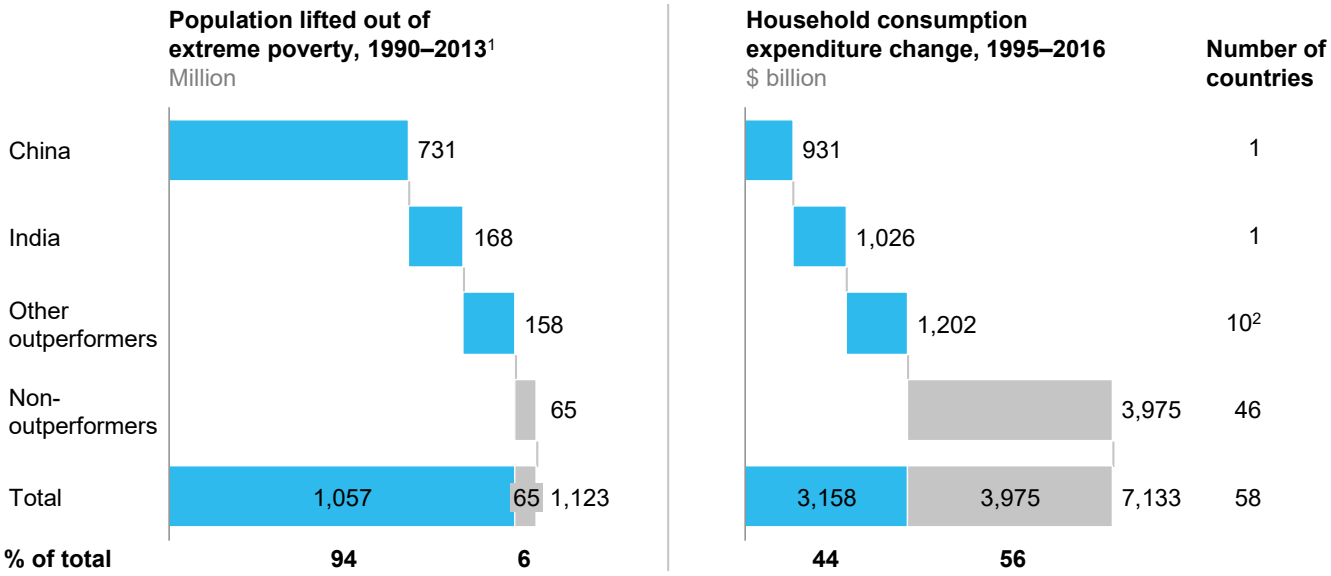
SOURCE: World Bank; McKinsey Global Institute analysis

Collectively, the outperformers have been the engine for lifting about one billion people out of extreme poverty, helping to meet a key United Nations Sustainable Development Goal.[5] Indeed, rising prosperity in these countries has not just reduced poverty, but also enabled the emergence of a new wave of middle and affluent classes. Between 1990 and 2013, the latest year for which comprehensive data are available, the number of people living in extreme poverty in the 71 emerging economies fell from 1.84 billion to 766 million. Outperformers accounted for almost 95 percent of that change. Less than 11 percent of the world's population now lives in extreme poverty, down from 35 percent in 1990.[6] While China and India led the way, lifting some 900 million people out of extreme poverty (approximately 730 million and 170 million, respectively), Indonesia also elevated over 80 million people out of extreme poverty (Exhibit E3).[7]

Exhibit E3

Outperformers lifted approximately 1.1 billion people out of extreme poverty and increased household consumption by about $3.2 trillion.



1 Defined as individuals earning less than $1.90 per day (PPP $ 2005), N = 63 economies.
2 Data unavailable for outperformers: Azerbaijan, Ethiopia, Laos, Myanmar, Turkmenistan, and Uzbekistan; non-outperformers: Angola, Côte d'Ivoire, Ghana, Nepal, Venezuela, Zambia, and Zimbabwe.
NOTE: Figures may not sum to 100% because of rounding.

SOURCE: PovcalNet, World Bank; UNDP; McKinsey Global Institute analysis

At the same time, growing numbers of residents of these countries joined what we call the "consuming class"—that is, people with incomes high enough to become significant consumers of goods and services.[8] Globally, these highly urbanized consumers have become a powerful motor for global economic growth. We estimate that 440 cities globally could account for close to half of world GDP growth by 2025, largely because of additional spending by the consuming class.[9] The outperformers accounted for almost half of the growth in household spending of all emerging economies in the past 20 years.

5 The World Bank defines extreme poverty as living on less than $1.90 a day.
6 *Poverty and shared prosperity 2016: Taking on inequality*, World Bank, 2016.
7 *Atlas of Sustainable Development Goals: No poverty*, World Bank, 2018, datatopics.worldbank.org/sdgatlas.
8 We define consuming class or consumers as those individuals with an annual income of more than $3,600, or $10 per day at purchasing power parity (PPP), using constant 2005 PPP dollars. See *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012, on McKinsey.com.
9 Ibid.

In the turbulent period for the global economy following the 2008 financial crisis, including the volatile commodity price cycle, some of the outperformers nonetheless recorded 3.5 percent annual GDP per capita growth between 2011 and 2016, even as a few of the exceptional historical performers, including Singapore, experienced a deceleration of growth. At the same time, a number of other countries have undergone growth spurts. They include Bangladesh, Bolivia, the Dominican Republic, Ghana, Poland, the Philippines, Rwanda, and Sri Lanka. Some but not all of these countries are also putting in place pro-growth policies that are strengthening their economic fundamentals, as we discuss later.

GOVERNMENT POLICIES ENABLED A PRO-GROWTH CYCLE BASED ON PRODUCTIVITY, INCOME, AND DEMAND

While the 18 outperformers vary considerably, spanning different income levels, sizes, regions (with the exception of Latin America, the Middle East, and North Africa), and factor endowments, our analysis suggests they share foundations of similar pro-growth cycles of rising productivity, income, and demand. Part and parcel of these foundations are competition policies that created an impetus for productivity growth and helped forge the big companies that have driven a significant part of GDP growth.

Policies aimed at supporting capital accumulation and ensuring stability helped create a pro-growth agenda

The pro-growth cycle starts with growing productivity, made possible by accumulating capital and technology. The fruits of improved productivity are then distributed throughout the economy in the form of more jobs and higher wages for workers, lifting more people into the middle class, and in turn supporting higher levels of consumption and savings.

Companies see increased profits, and governments collect additional tax revenue they can use to improve essential infrastructure. Wage growth translates into more disposable income, which boosts personal savings—some of it through mandatory payroll deductions for retirement savings—as well as investment and household consumption. This, along with better access to global markets, increases overall demand for goods. The outperformers we identify have historically stood out as better performers on most of these metrics, although opportunities remain.

For all the outperformer countries, increased productivity rather than a larger labor supply drove high rates of GDP growth.[10] Rising productivity, or total factor productivity (TFP) growth, which represents the efficient use of resources through technology, innovation, and better management, has in turn been enabled by capital accumulation and income growth (Exhibit E4).[11]

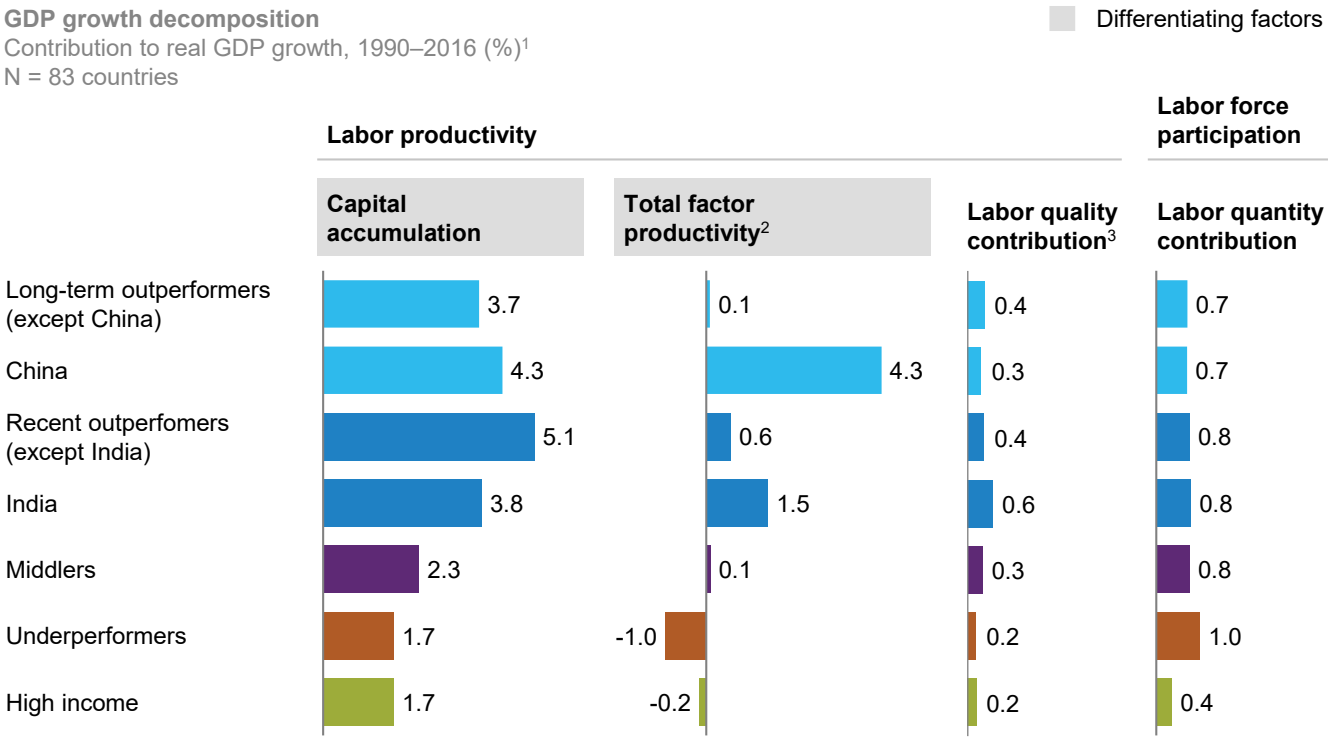
[10] In the 50-year period between 1964 and 2014, the total labor force in G-19 countries and Nigeria doubled, contributing about 48 percent of GDP growth in these economies, while rising productivity generated 52 percent. With slowing growth or declines in the working-age population in many countries, the onus on future GDP growth will fall more heavily on productivity improvements. For details, see *Global growth: Can productivity save the day in an aging world?* McKinsey Global Institute, January 2015, on McKinsey.com.

[11] Robert E. Hall and Charles I. Jones, "Why do some countries produce so much more output per worker than others?" *The Quarterly Journal of Economics*, February 1999, Volume 114, Number 1, pp. 83–116.

Exhibit E4

Capital accumulation and total factor productivity have been major drivers of economic growth for outperforming economies.

GDP growth decomposition
Contribution to real GDP growth, 1990–2016 (%)[1]
N = 83 countries



1 Simple average across economies within cohorts and across years within countries. 1995–2016 for recent outperformers.
2 Long-term outperformers' low rate of total factor productivity growth was caused, in part, by the 1997 Asian financial crisis. Further, capital accumulation and total factor productivity were likely lower for long-term outperformers over this period as the growth accelerations in these economies commenced prior to 1990. For example, from 1965 to 1990, South Korea's average growth of output attributable to total factor productivity is estimated to be 2.39%, while capital's contribution was 4.27% compared to total output growth averaging 8.78% per year (Nirvikar, Singh, and Hung Trieu, 1996).
3 Labor quality contribution data are constructed using data on employment and compensation by educational attainment. These data are collected from various sources, including Eurostat, World Input-Output Database and various country-specific KLEMS (capital, labor, energy, material and services) databases.

SOURCE: Economics Analytics Platform; World Bank; The Conference Board Total Economy Database; McKinsey Global Institute analysis

Indeed, more than two-thirds of the GDP growth in outperforming countries over the past 30 years is attributable to a rapid rise in productivity correlated with industrialization: an annual average productivity gain of 4.1 percent versus 0.8 percent for the other developing economies.[12] That rapid development initially drives the pro-growth cycle by creating wealth and boosting demand, which translates into more jobs.

Capital accumulation—enabled by high rates of investment and domestic savings—contributed an average of approximately four percentage points to economic growth each year between 1990 and 2016 for the seven 50-year outperformers in our sample, and five percentage points for the 11 shorter-term outperformers, between 1995 and 2016. Investment as a share of GDP averaged 30 percent for long-term outperformers and 20 percent for recent outperformers, or three to 13 percentage points higher than investment in other developing economies. The difference in domestic savings as a share of GDP was ten to 30 percentage points higher.

[12] We used McKinsey & Company's proprietary Global Growth Model to simulate the effects of the productivity increase. For details of the model, see Luis Enriquez, Sven Smit, and Jonathan Ablett, *Shifting tides: Global economic scenarios for 2015–25*, McKinsey & Company, September 2015, on McKinsey.com.

The outperformers could tap into higher levels of domestic savings, some of which was required by government-run pension savings schemes, such as Singapore's Central Provident Fund, and some of which was encouraged by governments developing strong financial institutions and convenient digital banking services.[13] Higher domestic savings enabled more investment in infrastructure, among other areas. Outperformers also attracted the largest share of foreign investment, almost 70 percent, of the approximately $900 billion invested in emerging markets between 2000 and 2016.[14]

For its part, total factor productivity accounted for one percentage point of annual GDP growth on average from 1995 to 2016 for the 20-year outperformers, compared with having limited or even negative effects in other developing economies and advanced economies. The 1997 Asian financial crisis took a toll on TFP among long-term outperformers, but in China, which was less affected by that crisis, TFP accounted for 4.4 percentage points of annual GDP growth from 1990 to 2016.[15]

Strong productivity growth in the 18 outperformers translated into exceptional income growth. Real wages and benefits rose by an average 4.6 percent annually in the seven long-term outperforming countries between 1980 and 2014. China led the way, with incomes there rising by 8.6 percent annually. Among the more recent outperforming countries, real wages and benefits grew by 6.0 percent per year between 1995 and 2014. This was about triple the level in other developing and advanced economies. Household consumption spending generated by rising incomes grew about three percentage points faster in the 18 outperforming countries than in other developing or advanced economies.

Another essential feature of these countries has been their ability to achieve macroeconomic stability, even at a time of global volatility, by adapting economic policies to fit their local context and changing conditions. For example, governments took quick action to ensure rapid recovery from volatile episodes such as the Asian financial crisis of 1997 and the global financial crisis of 2008 and 2009. When, in 2013, the prospect of central banks' unwinding of quantitative easing led to the so-called taper tantrum in financial markets in emerging economies, several countries, including India and Indonesia, implemented monetary, fiscal, and exchange-rate stabilization measures that served as a buffer to market pressure.

Outperforming economies are more connected to foreign markets, enabling them to tap into global demand

Outperforming economies have benefited from their ability to tap into global demand growth through export markets, giving them greater economies of scale.[16] This higher export orientation is reflected in MGI's Connectedness Index, which assesses the extent of countries' engagement with the global economy through inflows and outflows of goods, services, finance, people, and data.[17]

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13 *What is the Central Provident Fund (CPF)*, Singapore Ministry of Manpower, mom.gov.sg.

14 PitchBook Deal Analytics.

15 Nirvikar Singh and Hung Trieu, *Total factor productivity growth in Japan, South Korea, and Taiwan*, University of California, Santa Cruz, working paper, July 1996.

16 Jonathan Anderson, *How to think about emerging markets (2018 edition)*, Emerging Advisors Group, April 24, 2018.

17 MGI's Connectedness Index offers a comprehensive look at how countries participate in inflows and outflows of goods, services, finance, people, and data. The index takes into account the size of each flow for a country relative to its own GDP or population (flow intensity) as well as its share of each total global flow. *Digital globalization: The new era of global flows*, McKinsey Global Institute, March 2016, on McKinsey.com.

In 1980, outperformers accounted for 7 percent or less of global inflows and outflows across goods, services, and finance. By 2016, they had increased their share to 19 percent or more. The greatest increase came from goods trades. Outperformer economies captured almost 30 percent of global share by 2016—of which China accounted for 13 percentage points—compared with 1 percent in 1980. Indeed, seven of the outperformers rank in the top 30 countries globally for connectedness, including Singapore in second place, China in ninth, South Korea 15th, Malaysia 20th, Thailand 21st, Vietnam 26th, and India 30th.

Competition policies created impetus for productivity growth

Many outperformer countries recognized the importance of competitive private-sector firms and nurtured environments in which they could invest and compete, even as they created incentives for productivity improvements. Rather than picking winning sectors or winning companies within sectors, they focused on boosting productivity and enabling competition within sectors. As a result, sectors with a larger share of big firms grew faster, increased productivity by more, paid workers better, and realized greater levels of investment. In some but not all countries, governments helped incubate competitive domestic companies through sector-wide support for infant industries, including low-cost loans, preferential exchange rates, low tax rates, and R&D subsidies. However, protection was gradually lifted as these industries became more competitive, limiting market distortions. In some cases, support was tied to conditions that encouraged firms to increase productivity. For example, South Korea's import policy in the 1960s strictly limited all but strategic imports and imposed high tariffs, but the country gradually transitioned to a more (but still not entirely) open scheme in the 1980s.[18]

Attracting foreign investors, in the form of foreign invested enterprises (FIEs) and foreign direct investment, has also been a way for governments to contribute to productivity growth. China used joint venture structures and favorable FDI policies for FIEs, including preferential treatment, for example. Local firms can benefit from the technology spillover from these foreign firms, and FIEs help emerging economies participate in the global value chain.[19] In China, for example, they account for about half of exports, according to the Ministry of Commerce.[20] Improving government effectiveness helps attract foreign investment (see Box E2, "Outperforming economies benefit from improved government effectiveness").

Governments also collaborated with the private sector to co-create solutions in multiple areas, including infrastructure, technology, and financial services. Vietnam, for example, moved rapidly from being a socialist-market economy without a private sector to becoming a deregulated capitalist economy that has seen an influx of private enterprise and foreign investment. China allowed intercity and interprovincial competition, plus competition among state-owned and private-sector companies, including for foreign direct investment.

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[18] Kwan S. Kim, *The Korean miracle (1962–1980) revisited: Myths and realities in strategy and development*, Kellogg Institute working paper number 166, November 1991.

[19] John Van Reenan and Linda Yueh, *Why has China grown so fast? The role of international technology transfers*, Oxford University Department of Economics, working paper, January 2012.

[20] *Foreign direct investment—The China story*, World Bank, July 16, 2010.

THE ROLE OF PRODUCTIVE FIRMS IS A KEY CHARACTERISTIC OF GROWTH OF OUTPERFORMING ECONOMIES

Growth and development economists over the decades have extensively documented policies that have driven growth in emerging economies.[21] Less studied is the contribution to that growth of globally competitive, nimbly managed, and highly productive companies founded in and based in developing economies. In the 18 outperforming countries, we find that these firms, backed by macroeconomic and other enabling policies, not only helped boost GDP but also are catalysts for change at home.

[21] See, for example, Alice H. Amsden, *Rise of "The Rest": Challenges to the West from Late-Industrializing Economies*, Oxford, UK: Oxford University Press, 2001; Edward K.Y. Chen, *Hypergrowth in Asian Economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore, and Taiwan*, London: Macmillan, 1979; and Richard R. Nelson and Howard Pack, "The Asian miracle and modern growth theory," *The Economic Journal*, July 1999, Volume 109, Number 457.

Box E2. Outperforming economies benefit from improved government effectiveness

Government effectiveness is a characteristic of the outperformers, as reflected in their above-average improvement in the World Bank's Government Effectiveness Score (Exhibit E5).[1]

Firms in many of the outperforming economies face fewer regulatory and tax barriers compared with companies in other countries, and this in turn encourages business creation and improved efficiency. According to data from the World Bank Enterprise Survey, firms in the outperformer economies are less likely than those in other developing economies to consider tax management a major obstacle (9 percent of respondents versus 23 percent). Similarly, fewer firms in outperformer economies reported customs delays and trade barriers (9 percent versus 16 percent), facilitating exporting and importing activities. Senior managers in other developing economies report spending 11 percent of their time on government regulatory issues, while their peers in outperformer economies say they spend only 5 percent.[2]

Outperformer governments have used pilot programs and experiments to test new ideas in a variety of contexts, modifying and updating them as necessary, and then scaling up policies that work. China famously used special economic zones to test policies before introducing them broadly. Regulatory sandboxes, such as those used by the Monetary Authority of Singapore, also facilitated policy experiments while containing consequences of failure. Governments have also worked to improve the capabilities of the public sector, including hiring better government clerks, inspectors, and regulators. For example, South Korea invested in sending some of its civil servants to train in more advanced economies, while China systematically rotates its bureaucrats by function and geography.[3]

[1] World Bank Worldwide Governance Indicators, 2017.

[2] World Bank Enterprise Survey.

[3] The focus of our analysis is on the role of government and policies as they relate to economic performance and does not explore political processes, types of government, or the functioning of civil society.

We define large firms here as public companies with annual revenues of at least $500 million.[22] From 1995 to 2016, their revenue relative to GDP has almost tripled in outperformer developing economies, growing from the equivalent of 22 percent of GDP to 64 percent, close to levels in high-income economies and dwarfing levels in other developing economies. At the same time, we estimate that the contribution of value added by these outperformer firms to national GDP also grew rapidly, from 11 percent in 1995 to 27 percent in 2016—or double the share among non-outperforming emerging economies (Exhibit E6).

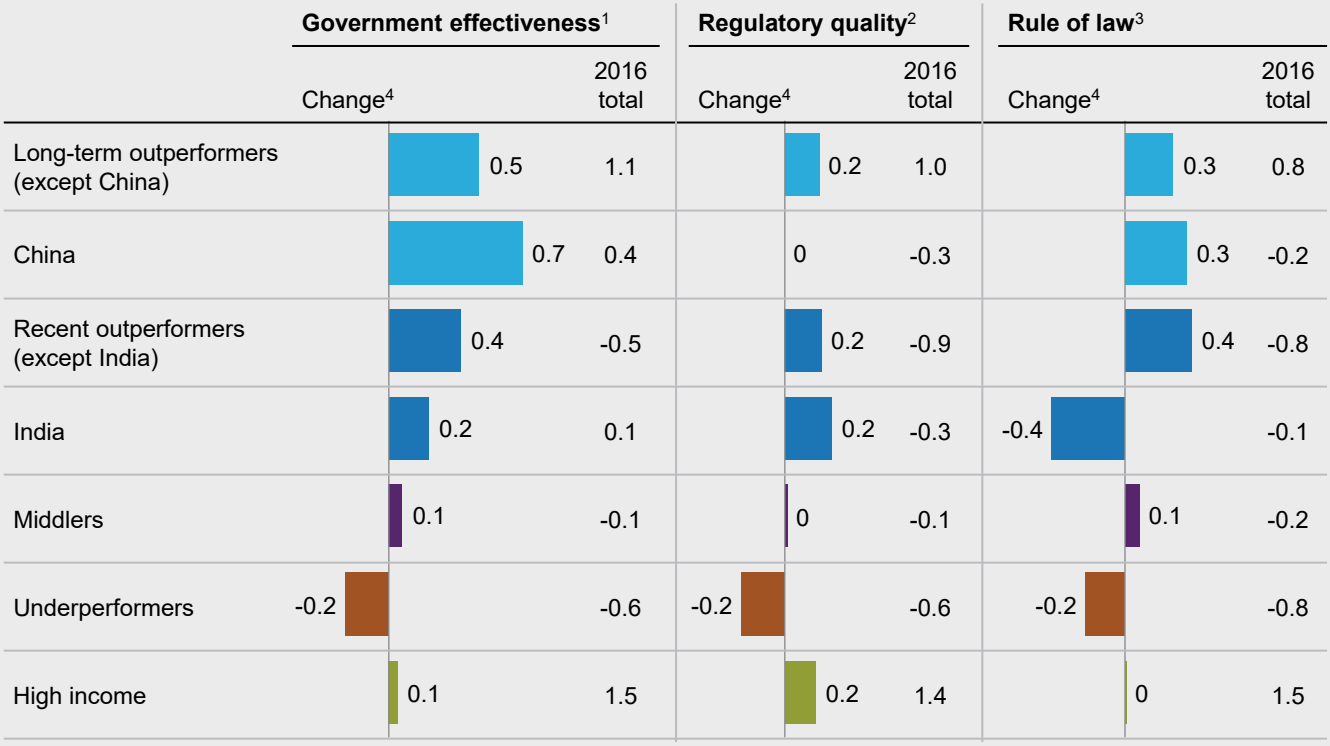
[22] For certain of our analyses including that of total shareholder returns, we use slightly different definitions, which we note where relevant. For our company analyses, we looked at more than 13,000 listed companies in 27 countries using McKinsey & Company's Corporate Performance Analytics tool. See technical appendix.

Box E2. Outperforming economies improved government effectiveness (continued)

Exhibit E5

Outperforming developing economies improved policy and institutional effectiveness.

Absolute change in Worldwide Governance Indicators score, 1996–2016
Simple average across archetypes
Score ranges from approximately -2.5 (weak) to 2.5 (strong)



1 Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
2 Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
3 Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
4 Changes show only the difference between 1996 and 2016 and do not reflect declines early in that period or steady scores more recently.

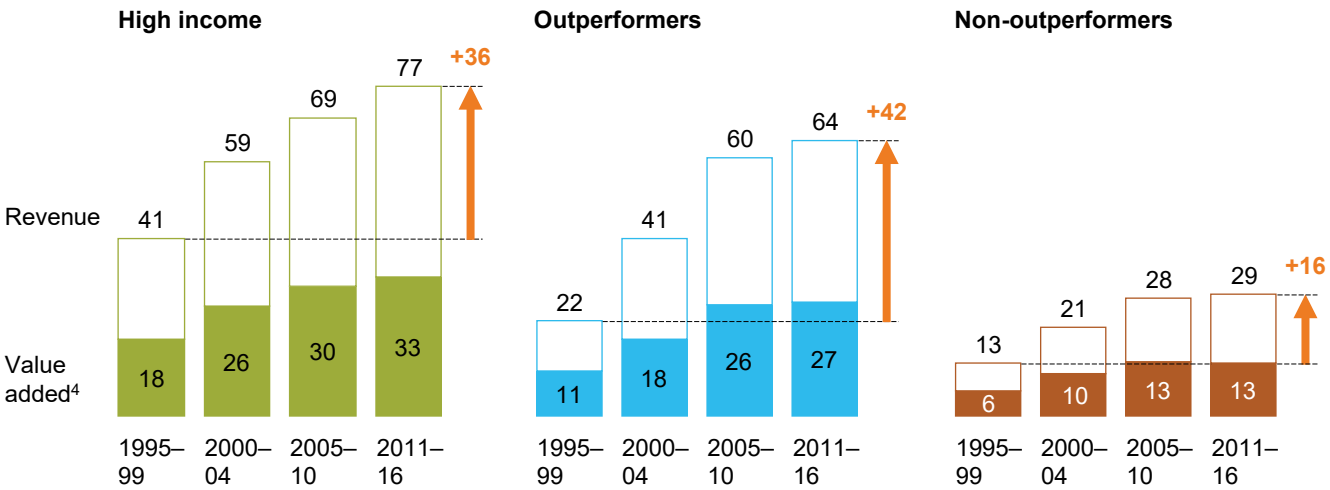
SOURCE: World Bank Worldwide Governance Indicators 2017; McKinsey Global Institute analysis

Exhibit E6

Large companies have been important to the growth of outperforming developing economies.

N = 25 economies; 6,474 companies[1,2]

Ratio of large-company revenue to GDP, 1995–2016[3]
%



1 Outperformers include China, India, Indonesia, Malaysia, Singapore, South Korea, and Thailand; high-income economies include Canada, France, Germany, Italy, Japan, the United Kingdom, and United States; non-outperformers include Argentina, Brazil, Egypt, Mexico, Nigeria, Pakistan, Poland, Russia, Philippines, South Africa, and Turkey; Hong Kong is excluded as an outlier (large-company revenue is equivalent to more than 340% of GDP).
2 Publicly listed companies with more than $500 million in revenue in 2016.
3 Simple average across countries; 5-year averages taken due to year-on-year volatility.
4 Gross value added has been calculated as the difference between revenue and cost of goods sold; GVA contribution of large financial services firms has been estimated.
NOTE: Figures may not sum to 100% because of rounding.

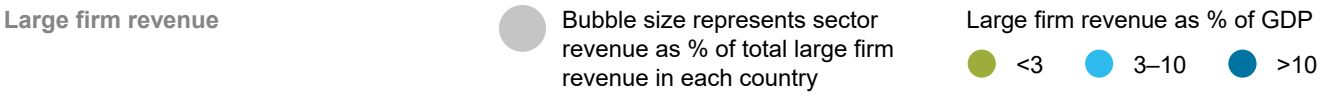
SOURCE: World Bank; McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

Large firms tend to focus on sectors that tap into global demand and which have helped drive a greater share of exports for the outperforming economies. They bring productivity benefits by investing in assets, R&D, and job training at a higher rate than small and medium-size enterprises—and they tend to pay higher wages, upward of 75 percent more in countries such as Indonesia and South Korea.[23] Along with these direct effects, large firms indirectly stimulate the creation, growth, and productivity of small and medium-size enterprises in their supply chains—and in turn depend on these SMEs to provide intermediate inputs for their ecosystem (Exhibit E7).

[23] This wage gap also has some less positive effects, including the potential to exacerbate income inequality. Lucia Cusmano, *Small, Medium, Strong: Trends in SME Performance and Business Conditions*, Paris, France: OECD Publishing, 2017; Kim Kyung-ho, "Wage gap widening between SMEs, large firms," *Korea Herald*, August 31, 2016.

Exhibit E7

Firms from outperforming countries operate in a wide variety of sectors.


Large firm revenue
Bubble size represents sector revenue as % of total large firm revenue in each country
Large firm revenue as % of GDP
<3
3–10
>10

	South Korea	Singapore	Thailand	China	Malaysia	India	Indonesia
Accommodation, food services, and entertainment/recreation activities							
Agriculture, forestry, and fishing							
Automotive and assembly							
Construction and real estate							
Energy and basic materials							
Financial and insurance services							
Healthcare							
Manufacturing: Consumer packaged goods							
Manufacturing: High tech							
Manufacturing: Other (chemicals, steel, textiles, etc)							
Manufacturing: Pharmaceuticals and medical products							
Telecommunications, media, and technology services							
Travel, transport, and logistics							
Wholesale and retail trade							
Other							
Total large firm revenue $ billion	**1,684**	**220**	**237**	**5,123**	**140**	**866**	**158**
Share of GDP %	**129**	**75**	**58**	**54**	**41**	**35**	**15**

NOTE: Hong Kong omitted as large firm revenue >300% of GDP; Singapore agriculture, forestry, and fishing omitted as outlier.

SOURCE: IMF; McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

COMPETITIVE EMERGING-MARKET FIRMS AS ASPIRING GLOBAL LEADERS

Rising to the top in the outperforming emerging economies—and then staying there—is by no means a foregone conclusion for large firms, many of which are far from the common stereotype of outsize government-protected oligopolies. Our analysis finds that the competitive dynamics in many (but not all) of the outperforming countries can be brutal, with only the strongest surviving. Domestic competition, in turn, has enabled the winners to earn a disproportionate share of revenue and income and to outperform their counterparts in advanced economies across key dimensions, including total returns to shareholders. For companies in high-income countries, the developing world has thus become both an opportunity for growth and the source of tough new global competition.

It's hard to be a winning company in an outperforming economy

One indication of the competitive corporate environment is that outperforming countries have about twice as many big companies per trillion dollars of GDP as other emerging economies, just over 160 firms per $1 trillion in 2016 versus 80 firms in non-outperforming peers (and 95 in high-income countries).[24] As a result, revenue growth is shared more widely. In high-income countries, for example, 8 percent of firms account for 80 percent of all big-company revenue growth. In the outperformers, that figure is 22 percent of firms.

Contested leadership is a vital sign of the competitive environment. Less than half (45 percent) of firms that reached the top quintile in terms of economic profit generation between 2001 and 2005 managed to stay in place for a decade, according to our analysis. That was far less than incumbents in high-income economies, 62 percent of which stayed in the top quintile for the same decade.[25] This churn holds true for virtually all the sectors we studied and for all the outperformer countries for which data were available (Exhibit E8).[26]

The rewards for the successful companies that stay on top are substantial: the top 10 percent of large firms in terms of value creation in the outperforming countries captured 454 percent of the net economic profits generated by all companies. That is more than four times the proportion in high-income countries, where the top 10 percent captures only 106 percent of all net economic profit. But the penalties for failure are larger, too: the bottom 10 percent of firms in outperformer emerging economies accrues losses equivalent to 289 percent of the total, compared with 31 percent of the respective profit pool for top large firms in advanced economies.

[24] In 1995, the outperformers had almost three times as many companies per trillion dollars of GDP, but the ratio has come down as GDP has grown. In non-outperforming developing economies, the number has stayed flat.

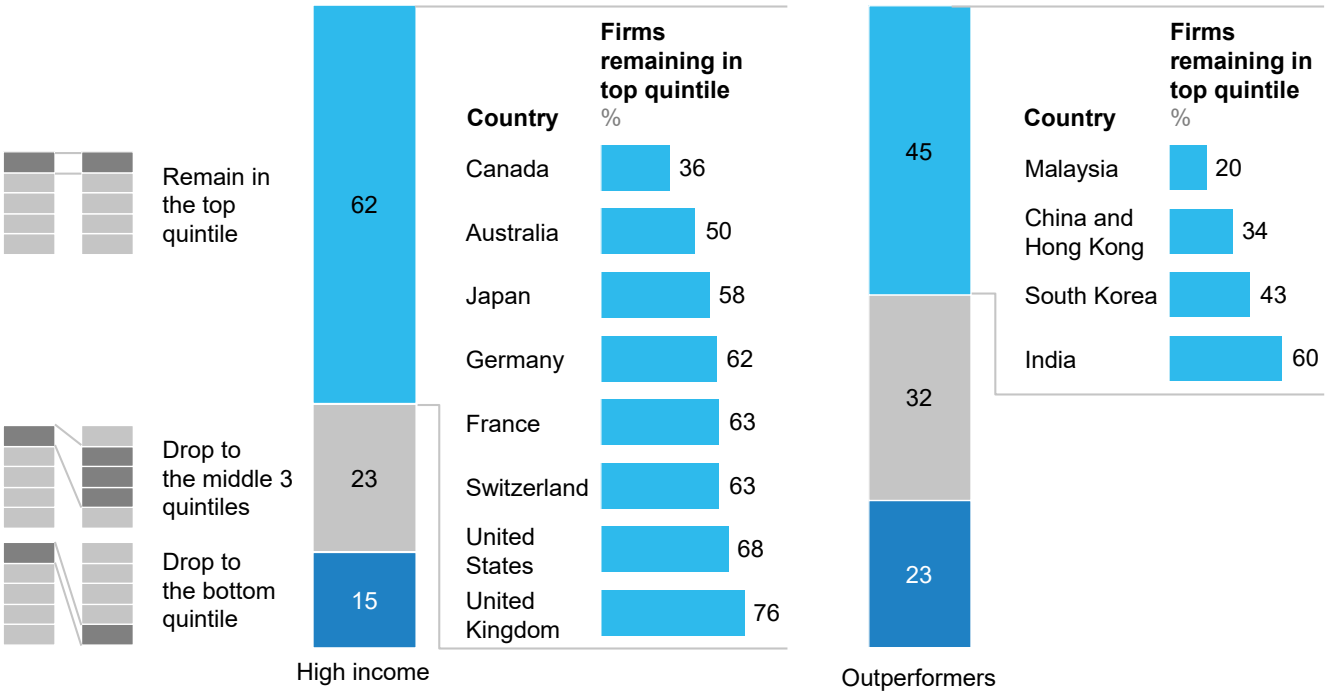
[25] See technical appendix for details of our methodology in calculating contested leadership.

[26] In our discussion of successful large firms in this report, we highlight the aggregate trends we found in our research but do not systematically list the companies themselves, especially given the high churn rate among top-quintile firms. We are also conscious that some emerging-economy firms may have high debt levels or may be creating economic profit largely because of market forces outside their control, for example commodity prices.

Exhibit E8

Emerging economies exhibit greater contested leadership among top firms.

Distribution of trajectory for top quintile economic profit generators over 10 years[1]
% (N = 48 countries and 2,284 total companies[2,3])



1 Quintiles based on rankings within archetype by economic profit generation between 2001–05 and 2011–15. Economic profit defined as net operating profit less adjusted taxes (NOPLAT) – [invested capital x weighted average cost of capital].
2 Outperformers include China, India, Indonesia, Malaysia, Thailand, Hong Kong, Singapore, and South Korea; high-income countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Italy, Japan, Netherlands, Norway, Saudi Arabia, Spain, Switzerland, United Arab Emirates, the United Kingdom, and the United States; non-outperformer emerging economies include Argentina, Brazil, Chile, Colombia, Czech Republic, Egypt, Greece, Hungary, Mexico, Morocco, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Slovak Republic, South Africa, and Turkey.
3 Publicly listed companies with more than $500 million in revenue in 2016, of which 457 were top quintile.

SOURCE: McKinsey Strategy Practice (Beating the Odds model v20.0); McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

The most competitive companies from emerging economies are becoming global players that outperform their counterparts in advanced economies

The emerging-market firms that survive this rite of passage emerge hardened and formidable competitors on the global stage. They cover a wide range of sectors, with significant differences depending on the structure of national economies.

Between 1995 and 2016, large, publicly listed companies in the outperforming countries grew their net income each year four to five percentage points faster than firms in other emerging economies. On a global level, they contributed about 40 percent of the revenue and net income growth of all large public companies from 2005 to 2016, even though they accounted for only about 25 percent of total revenue and net income in 2016. More than 120 of these companies have joined the Fortune Global 500 list since 2000.

The best-performing companies also outdid firms in advanced economies on a key performance indicator: total return to shareholders. Between 2014 and 2016, total return to shareholders from the top quartile of outperformer companies was 23 percent on average, compared with 15 percent for top-quartile firms in high-income countries and 13 percent in non-outperformer emerging economies. However, return on invested capital was higher among companies in high-income countries, which tend to focus more on maximizing profit margins over revenue growth.

To understand the contribution of these big companies more fully, we surveyed executives from more than 2,000 companies across seven countries and ten industries. Three characteristics stand out:

Top firms in emerging economies devote more attention to innovation, deriving 56 percent of their revenue from new products and services, eight percentage points more than their peers in advanced economies. Many top companies take the lead in addressing technological and digital disruption in their industries (Exhibit E9). This, in turn, is helping some cities, especially in China, India, and South Korea, emerge as clusters of innovation as a result. The number of patents granted annually in Bangalore, Beijing, and Shanghai grew more than twice as fast as in Silicon Valley, the largest innovation cluster in the world. Individual examples of creative innovation abound. The Chinese phone manufacturer Transsion is one: it has become the leading brand of smart and feature phones in Africa by making handsets that not only are affordable but can accommodate up to four SIM cards to let customers in many African countries avoid the high cost of calling someone who uses a different mobile provider. It is now growing rapidly in India, making inroads against market leader Samsung in some markets just a year after launching its four brands.[27]

Second, these companies are more aggressive in their investment strategies and nimbler in allocating resources.[28] They invest almost twice as much as comparable businesses in advanced economies, measured as a ratio of capital spending to depreciation. This gap holds across most industries we analyzed. In India, for example, Reliance Jio, a mobile network operator that launched in September 2016, has already invested $30 billion in its fourth generation (4G) VoLTE mobile network, leapfrogging incumbents that were gradually transitioning out of older technologies. In less than two years of operations, the company has become the third-largest telecom operator in India by market share.[29] These leading companies are also faster in assigning resources. On average, they make important investment decisions six to eight weeks faster than similar companies in advanced economies.[30] That amounts to about 30 to 40 percent less time.

Third, the most successful large companies in emerging economies are 27 percentage points more likely than their peers in high-income countries to prioritize growth outside their home markets—and in doing so, have become powerful global competitors.[31] The Thai conglomerate CP Group is one example. Focused on agribusiness, real estate, retail, and telecommunications, CP Group was the first foreign investor in China´s first special economic zone in Shenzhen in 1981; today, its Chinese businesses account for a significant portion of its $40 billion to $50 billion annual sales.[32] In Africa, Ethiopian Airlines has expanded rapidly through acquisitions, including large stakes in Malawian Airlines (49 percent) and Zambia Airways (45 percent), and partnerships, such as the one with the Guinean government to start Guinea Airlines and with ASKY Airlines in Togo. The

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27 Writankar Mukherjee, “Chinese phone maker Transsion Holdings eyes top three slots in Indian market,” *Economic Times,* August 23, 2017, economictimes.indiatimes.com; and Li Tao, “How an unknown Chinese phone maker became No 3 in India by solving the oily fingers problem,” *South China Morning Post*, January 12, 2018, scmp.com.

28 One explanation for this difference is that the ownership structure of these companies and strong family or state control may allow for long-term investment and scale. See *Playing to win: The new global competition for corporate profits*, McKinsey Global Institute, September 2015.

29 Promit Mukherjee, “Reliance lifts Jio investment above $30 billion after record year,” Reuters, April 25, 2017, in.reuters.com.

30 McKinsey 2017 Firm Survey.

31 Ibid.

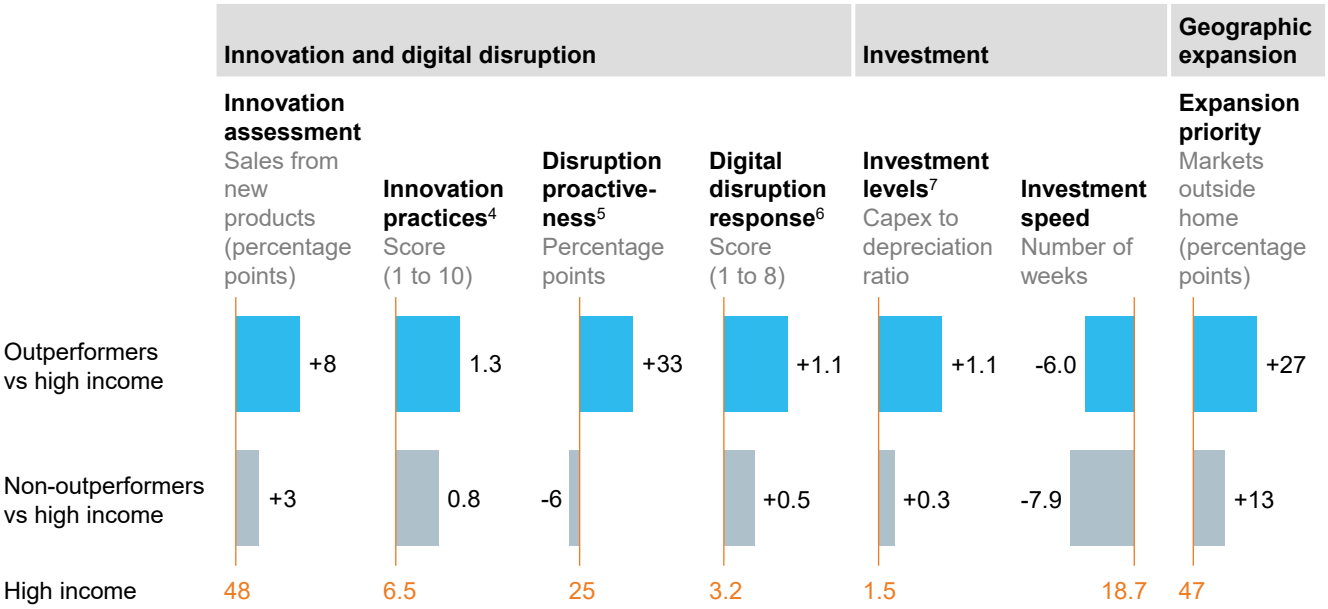
32 Usanee Mongkolporn, “New Charoen Pokphand CEO unveils ‘CP 4.0’ plan,” *The Nation*, February 24, 2017.

company earned $273 million in profit in 2015–16 while the African airline industry overall lost $900 million.[33]

Exhibit E9

Top firms in outperformer economies are bolder, quicker, and more forceful than their peers.

Comparison of self-reported performance and practices for top-performing firms across archetypes[1,2]
Absolute difference compared to top-performing firms from high-income economies
N = 7 countries, 2,172 companies[3]



1 Top-performing defined as top quartile of self-reported revenue growth (over past 3 years) adjusted for country and industry.
2 All reported statistics are calculated as weighted averages across countries within archetype.
3 Outperformers include China, India, and Indonesia; non-outperformer emerging economies include Brazil and South Africa; high income includes Germany and the United States.
4 Score marks number of dimensions for which respondent answered either “Strongly agree” or “Agree” among 10 dimensions that describe the company’s current innovation capabilities and practices.
5 Proactiveness measured as answering either "We have changed our longer-term corporate strategy to address the disruption” or "We initiated the disruption(s)" to question “Which of the following statements best describes your company’s approach to addressing the technological and digital disruptions that have affected your industry in the past three years?"
6 Score marks number of “changes [made] to the strategy of individual business units…in response to technological and digital disruptions that have affected your industry in the past three years.”
7 Based on financial data for large publicly listed companies with more than $500 million in annual revenue; top performing defined as top quartile in terms of total return to shareholders adjusted by industry.
NOTE: Not to scale.

SOURCE: McKinsey 2017 Firm Survey; McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

NEW OPPORTUNITIES FOR EMERGING ECONOMIES IN CHANGING TIMES

Global conditions are changing. Manufacturing seems to be peaking earlier than it used to in developing countries, for example, and cross-border trade flows have lost some of their dynamism since the 2008 financial crisis. With these changes come not only challenges but also new opportunities for emerging economies in both manufacturing and services.

[33] *Ethiopian becomes strategic partner in new Malawi airlines*, Ethiopian Airlines press release, July 13, 2013, ethiopianairlines.com; Tom Collins, “Ethiopian Airlines on the up,” *African Business Magazine*, August 8, 2017, africanbusinessmagazine.com; Abdi Latif Dahir, “How Africa’s largest airline will dominate the continent’s skies,” Quartz Africa, January 20, 2018, qz.com.

Global trends in demographics, trade and other flows, and technology imply emerging markets will be the main battleground for global growth

We highlight three fundamental changes in the global landscape that all emerging economies will have to navigate: changing demographics, rising global prosperity, and urbanization, which will influence consumption; shifting patterns of trade and other cross-border flows; and the increased adoption of digital and automation technologies, which could challenge some traditional development paths even as they potentially boost productivity and GDP growth. The combined effect of these trends is to heighten the importance of emerging markets in the global economy both as sources of demand and as competition.

Demographic change is already affecting the global economy, with a decline in the working-age population in some countries such as Germany and Japan acting as a drag on growth. At the same time, we see a powerful countertrend in the form of rising urbanization in emerging economies, which is boosting consumption as people move to cities and join the burgeoning consuming class. We expect emerging economies overall to represent 62 percent of total consumption growth between 2015 and 2030, the equivalent of $15.5 trillion, with 22 percent of that coming from China alone—a country that is also undergoing the aging phenomenon.[34]

Growth in global trade in goods and services slowed following the 2008 financial crisis, and trade and migration face a political backlash in some countries. At the same time, cross-border digital flows have grown apace, by 147 times from 2005 to 2017, and have assumed a major role in global commerce.[35] Recent MGI research has shown that, for the first time in history, developing economies participate in more than half of global trade of goods, and "south-south" trade—shorthand for trade among emerging economies, even if they are not in the Southern Hemisphere—is growing faster than north-south or north-north trade. China is a significant driver of this south-south trade. As it develops, it is focusing more on R&D and capital-intensive manufacturing; this is creating opportunities in labor-intensive manufacturing for Vietnam, India, and other low-income emerging economies in recent times.[36] Overall, the share of goods trade among emerging markets, both south-south and China-south, has risen from 8 percent in 1995 to 20 percent in 2016 (Exhibit E10).

A digital revolution is also unfolding. Recent rapid advances in automation and artificial intelligence could give a much-needed boost to productivity and per capita GDP growth globally, helping counter the demographic changes noted above. We estimate that automation has the potential to increase productivity in developing economies by 0.8 to 1.2 percentage points a year between 2015 and 2030.[37] Digital technologies have already enabled new business models and opened new markets. In Kenya, for example, M-Pesa allows mobile money transfers, while in Indonesia, Go-Jek, a motorcycle-hailing application, has opened new frontiers in transportation using technology.

While many jobs will be displaced by adoption of the new technologies in the workplace, our research suggests that enough new work will likely be created, especially in emerging economies, to offset those jobs lost. Jobs of the future including in emerging economies will nonetheless require new skills and higher educational attainment than today's jobs, posing

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[34] *Urban world: The global consumers to watch,* McKinsey Global Institute, March 2016, on McKinsey.com.

[35] McKinsey Global Flows database 2.0.

[36] China's share of emerging economies' labor-intensive manufactured exports rose from 33 percent in 2000 to 56 percent in 2014, but declined to 53 percent in 2016, while its share of emerging economies' R&D and capital-intensive manufacturing increased.

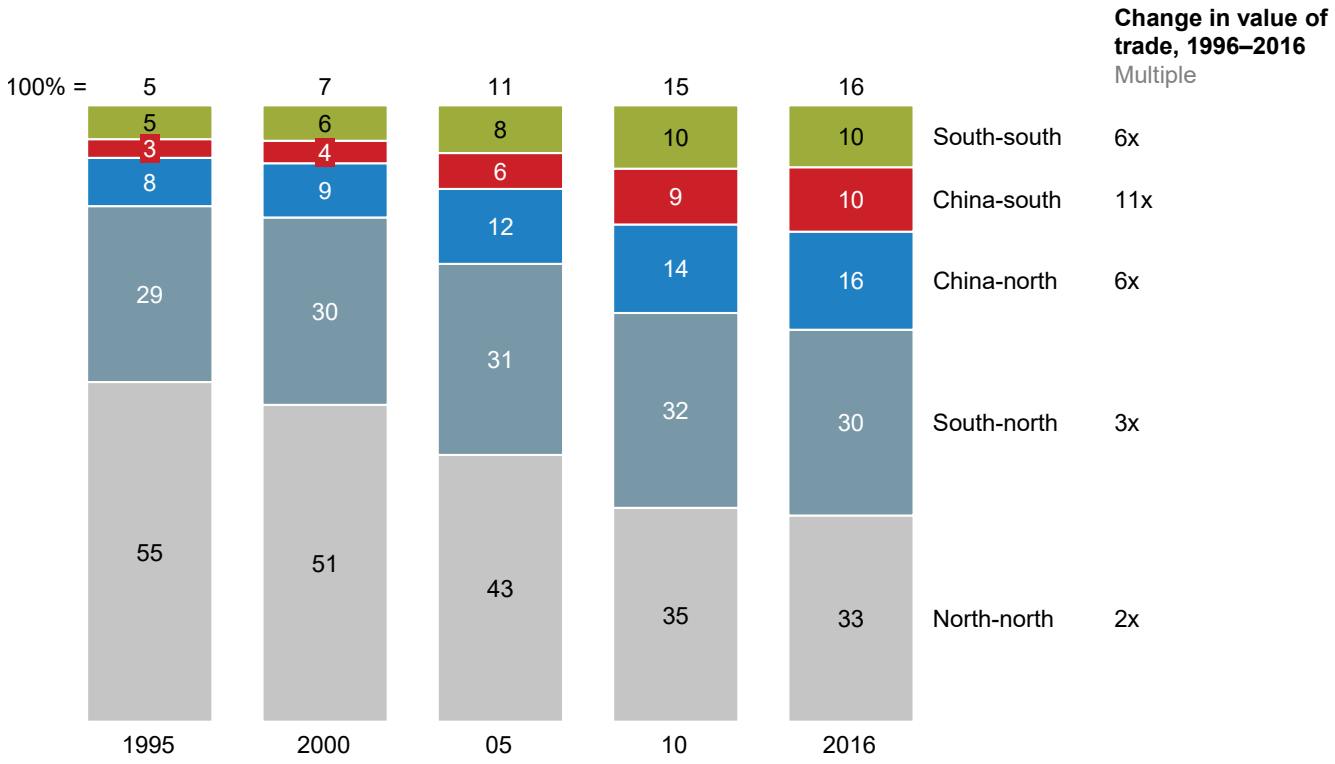
[37] This estimate is based on a scenario for the pace of automation adoption in the midpoint of our range, between the fastest and the slowest adoption outlined in our January 2017 automation report and subsequently updated. *A future that works: Automation, employment, and productivity*, McKinsey Global Institute, January 2017, on McKinsey.com.

a significant training and retraining challenge to governments, educational institutions, and companies.[38]

Exhibit E10

The share of goods trade among emerging markets (south-south and China-south) increased from 8 percent in 1995 to 20 percent in 2016.

Goods trade by development status[1]
%; $ trillion (current $)



1 Global imports of goods; north and south defined as developed and emerging markets respectively.
NOTE: Figures may not sum to 100% because of rounding.

SOURCE: UNCTAD; McKinsey Global Institute analysis

Manufacturing has continued strong growth opportunities

Manufacturing has been a powerful engine of economic growth and employment in outperforming economies over the past three decades, and has tended to follow a similar pattern: its share of employment eventually peaks and starts to decline, at which point the service sector takes over as leading job creator. Researchers recently found that this peak is occurring earlier and earlier in the development process, a phenomenon that Dani Rodrik, an economist at Harvard University, has dubbed "premature deindustrialization."[39] This phenomenon complicates but may not frustrate developing economies' ambitions; we find that manufacturing may still have room to grow, especially in low-income countries, and it can remain a source of job creation, especially where low wages and a strategic location make a country an attractive destination for garment makers and other labor-intensive manufacturers.

[38] See *Jobs lost, jobs gained: Workforce transitions in a time of automation*, McKinsey Global Institute, December 2017, on McKinsey.com; *Skill shift: Automation and the future of the workforce*, McKinsey Global Institute, May 2018, on McKinsey.com.

[39] Dani Rodrik, "Premature deindustrialization," *Journal of Economic Growth*, March 2016, Volume 21, Number 1, pp.1–33.

Our analysis shows that more than 20 countries can still increase the share of employment and value-added of manufacturing sectors in the economy (Exhibit E11). Some developing economies, for example, are benefiting from China's shift away from the manufacture and export of labor-intensive goods. In Bangladesh, manufacturing's contribution to GDP rose to 22 percent from 16 percent between 2005 and 2016, and its share of the labor force increased to 14 percent from 11 percent. Vietnam posted similar gains, with manufacturing's share of GDP climbing to 21 percent from 16 percent from 2009 to 2016.[40] Countries, especially those with relatively lower levels of manufacturing share to begin with, can generate manufacturing-led growth, provided they focus on creating mechanisms to help businesses to compete.

Much of that opportunity is likely to come from growing consumer demand in developing economies as incomes increase. Indeed, China and India's growth in imports of manufactured goods to 2030 could surpass the import growth registered by the United States and Western Europe in the 1980s and 1990s, according to our estimate. Manufacturing does not just create jobs and growth in manufacturing-related sectors, but has a broader impact on productivity and employment in the economy. An illustrative analysis of manufacturing and services in five emerging economies—Bangladesh, Ethiopia, India, Mexico, and Vietnam—suggests that, including these induced effects, manufacturing has a significant multiplier effect on employment of more than five times, compared with three times for services. The multiplier effect for output is about 2.3 times, compared with 1.9 times for services.

A closer look at three industry sectors by way of example highlights some of the growth opportunities.

- **Textiles and apparel** could grow annually at 4 percent until 2030, double the rate since 1995.[41] Just five economies—Bangladesh, China, Indonesia, Turkey, and Vietnam—are responsible for 51 percent of global growth in exports of textiles and apparel in the past five years.

- **Electronics and electrical equipment** has grown at 5 percent per year since 1995 and could maintain that pace at least until 2030, with developing economies' share of global value added rising to 65 percent in 2030 from 52 percent in 2016.[42] This sector is particularly effective at boosting technology adoption and higher productivity. In Vietnam, for example, global players including Foxconn, Intel, Samsung, and Wintek have invested more than $15 billion since 2010 to set up production facilities and build partnerships with local parts manufacturers.[43]

- **The automotive industry** presents another opportunity, as the focus of global production moves to emerging economies. Some 46 percent of all global growth in exports since 2011 came from five emerging economies: China, the Czech Republic, Hungary, Mexico, and the Slovak Republic.

40 World Input-Output Database Socioeconomic Accounts 2016.

41 Estimates of consumption by IHS Markit. Consumption measured in total merchandise value.

42 Estimates from IHS Markit.

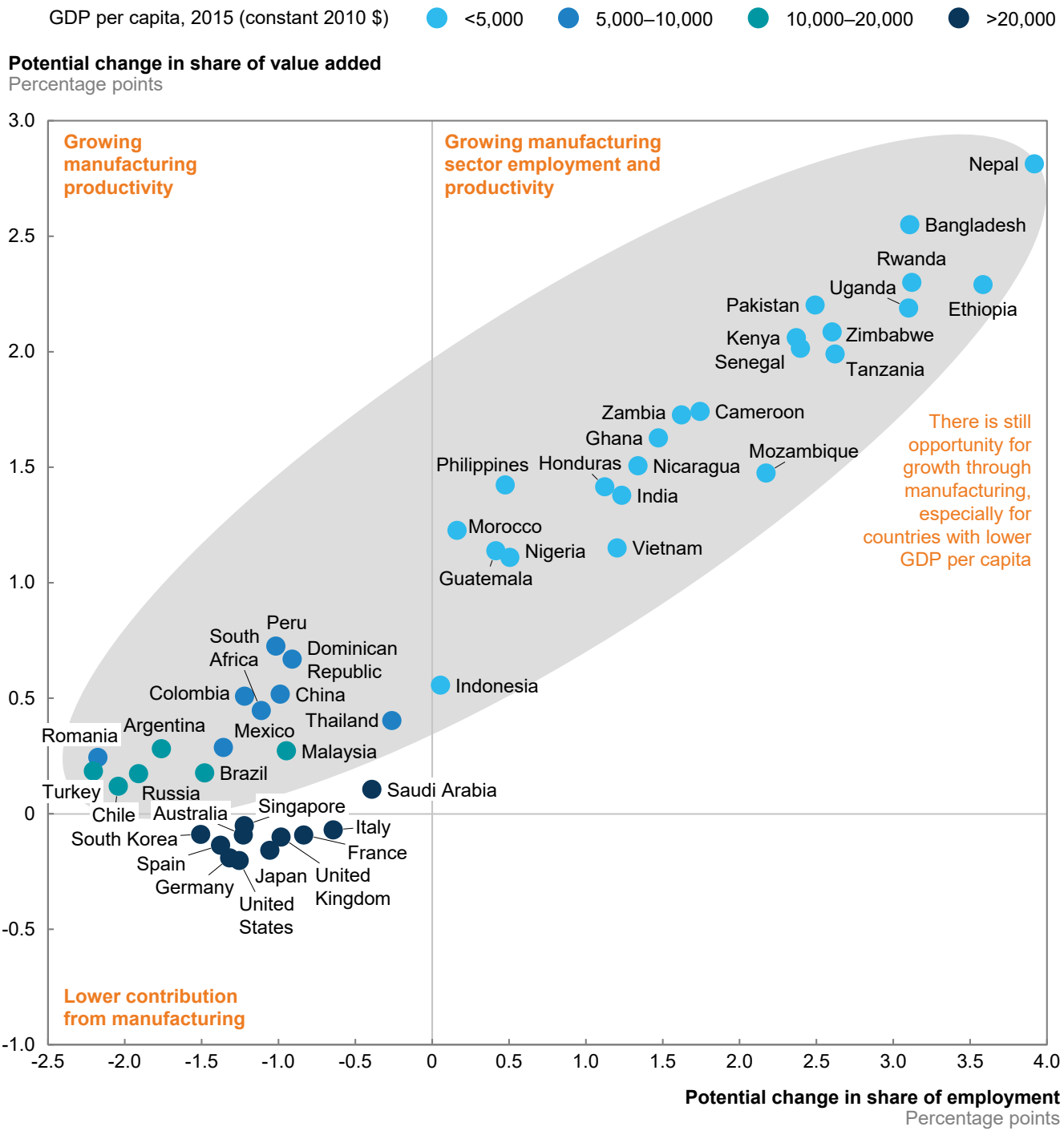
43 Based on data from Vietnam Electronic Industries Association and Aranca.

Exhibit E11

Manufacturing can remain an important source of employment and growth for low-income economies.

SIMULATION

Change in employment and value added in manufacturing in productivity boost scenario, 2015–30



SOURCE: Groningen Growth and Development Centre; McKinsey Global Growth Model; McKinsey Global Institute analysis

Services can create jobs and open productivity-growth opportunities as the relative contribution from manufacturing declines

Services account for more than 60 percent of GDP and more than half the jobs in emerging economies, but in most countries the service sector has not historically been a significant contributor to productivity growth. That is now changing, partly thanks to technology, which enables providers ranging from call-center workers to radiologists to more easily compete around the world. The share of services as a proportion of total global exports has risen from 19 percent in 1995 to 24 percent today. The share of employment in services is also becoming more relevant at an earlier stage of development.

It is particularly important for emerging economies to simultaneously increase productivity and employment in service sectors such as construction and trade because they typically absorb the greatest number of workers leaving agriculture work. In studying 19 emerging economies over the past decade, we found most countries were able to lift productivity and employment in those sectors—though the growth was not always even or automatic. Our analysis of several sectors finds new opportunities for productivity growth in services. For example, trade in business and IT services doubled to more than $2 trillion between 2005 and 2016, and global demand is expected to grow by 3 percent annually to 2025, with digital spending becoming the main driver of growth. In India, a major provider, IT and business process revenue has expanded at 9 percent annually since 2012, while employment has grown by more than 6 percent.[44] Productivity has risen 4 percent annually since 2000.[45]

In retail, we see potential productivity growth across emerging economies of more than 5 percent, with almost 60 percent of that potential achieved by shifting more sales to hyperstores, supermarkets, big-box stores, and other modern retail formats that are typically at least three times as productive as small-scale traditional stores. Online retailing is even more productive, and in countries with substantial e-commerce penetration, such as Brazil, India, and Indonesia, productivity in the retail sector has grown by more than 5 percent per year since 2000.[46] Exhibit E12 highlights the productivity opportunity for emerging economies in some sectors, both in manufacturing and in services.

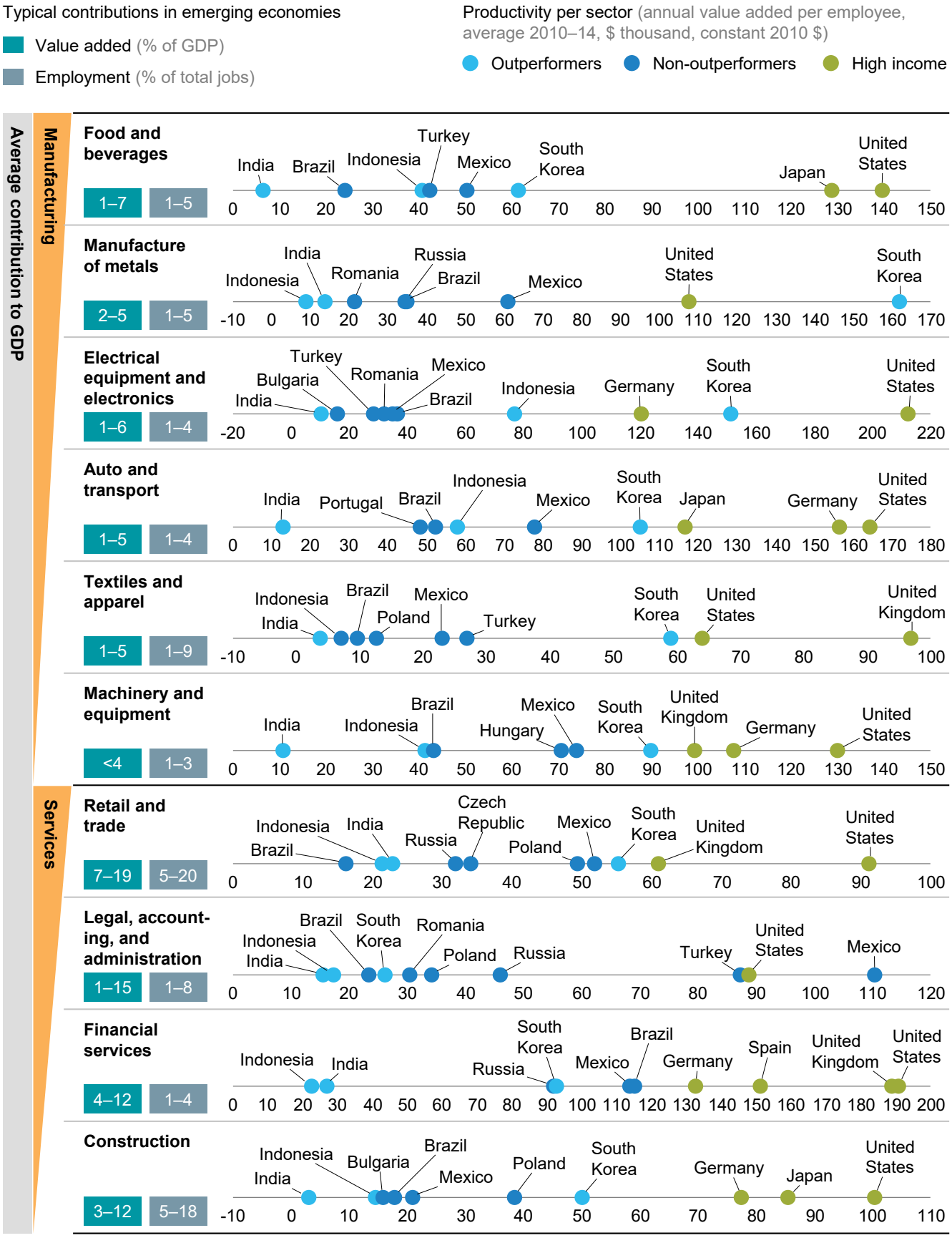
[44] *Jobs and skills: The imperative to reinvent and disrupt*, NASSCOM, May 2017; *Indian IT-BPM industry—FY 2013 performance review, FY 2014 outlook*, NASSCOM, February 2013.

[45] World Input-Output Database Socioeconomic Accounts 2016.

[46] Ibid.

Exhibit E12

Emerging economy firms have opportunities to increase productivity in manufacturing and services.


Typical contributions in emerging economies
Value added (% of GDP)
Employment (% of total jobs)
Productivity per sector (annual value added per employee, average 2010–14, $ thousand, constant 2010 $)
Outperformers
Non-outperformers
High income
Average contribution to GDP
Manufacturing
Services
Food and beverages
1–7
1–5
India Brazil Indonesia Turkey Mexico South Korea Japan United States
0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150
Manufacture of metals
2–5
1–5
Indonesia India Romania Russia Brazil Mexico United States South Korea
-10 0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170
Electrical equipment and electronics
1–6
1–4
India Bulgaria Turkey Romania Mexico Brazil Indonesia Germany South Korea United States
-20 0 20 40 60 80 100 120 140 160 180 200 220
Auto and transport
1–5
1–4
India Portugal Brazil Indonesia Mexico South Korea Japan Germany United States
0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180
Textiles and apparel
1–5
1–9
Indonesia India Brazil Poland Mexico Turkey South Korea United States United Kingdom
-10 0 10 20 30 40 50 60 70 80 90 100
Machinery and equipment
<4
1–3
India Indonesia Brazil Hungary Mexico South Korea United Kingdom Germany United States
0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150
Retail and trade
7–19
5–20
Brazil Indonesia India Russia Czech Republic Poland Mexico South Korea United Kingdom United States
0 10 20 30 40 50 60 70 80 90 100
Legal, accounting, and administration
1–15
1–8
Indonesia India Brazil South Korea Romania Poland Russia Turkey United States Mexico
0 10 20 30 40 50 60 70 80 90 100 110 120
Financial services
4–12
1–4
Indonesia India Russia South Korea Mexico Brazil Germany Spain United Kingdom United States
0 10 20 30 40 50 60 70 80 90 100 110 120 130 140 150 160 170 180 190 200
Construction
3–12
5–18
India Indonesia Bulgaria Brazil Mexico Poland South Korea Germany Japan United States
-10 0 10 20 30 40 50 60 70 80 90 100 110

NOTE: Not to scale.

SOURCE: World Input-Output Database, 2016; McKinsey Global Institute analysis

An $11 trillion boost awaits the global economy if all emerging economies match the historical productivity growth of outperformers

Productivity growth will determine the pace at which incomes—and consumption—continue to rise in developing economies. Consensus forecasts that serve as our baseline anticipate that the 53 developing economies that are either middling or underperforming may increase their productivity growth to 1.3 percent per year on average between 2015 and 2030.[47]

What would happen if these economies could match the historical productivity gains of the 18 outperformers? It would require them to lift their annual average productivity growth from the 1.4 percent rate between 2000 and 2015 to 4.1 percent, the average annual rate achieved by the outperformers. To estimate the impact, both for the emerging economies and for the global economy, we simulated this increase using a macroeconomic model.[48]

The effects are striking: for developing economies, the overall per capita GDP growth rate could rise to 4.6 percent. This could push their average per capita GDP more than 50 percent above the consensus forecasts for 2030 and lift 200 million people to the consuming class and 140 million more people out of poverty—an increase of almost two full percentage points of the global population.

How credible is such a scenario? Tripling productivity growth rates is certainly an ambitious goal, but the precedent has already been set: this is what the 11 recent outperformers achieved between 1995 and 2015 compared with the baseline period of 1980 to 1995.

The global economy would experience a bounce, growing at an average rate of 3.5 percent a year, compared with consensus forecasts of 2.8 percent. That growth could directly add $11 trillion to global GDP by 2030. About $8 trillion of that would come directly from the 53 hitherto middling and underperforming emerging economies. The remaining $3 trillion would come indirectly, as increased economic activity and income in the 53 nations affect global demand in advanced and outperforming emerging economies. The $11 trillion boost to global output amounts to roughly 10 percent of the world's economy and would be equivalent to adding another China.

GEOGRAPHIC REGIONS HAVE STRENGTHS AND WEAKNESSES IN COMMON, AND ALL HAVE POTENTIAL TO STRENGTHEN THEIR PRO-GROWTH CYCLES

We analyzed the strengths and challenges of all 71 emerging economies in our sample by using 13 indicators of economic performance and potential that highly correlate to per capita GDP growth as demonstrated by the outperformers. These indicators track performance across a range of dimensions, including elements of productivity, income, and demand that contribute to the pro-growth agenda mentioned earlier.[49] A heat map of our findings provides a snapshot of both the strengths and the challenges of the seven regions (Exhibit E13).

[47] Consensus forecasts from the Economist Intelligence Unit, IHS Economics, and Oxford Economics.

[48] We used McKinsey & Company's Global Growth Model to simulate the effects of the productivity increase.

[49] The 13 indicators are: domestic savings, foreign direct investment, market capitalization of listed domestic companies, Global Innovation Index, government effectiveness, inflation, government health expenditure, government education expenditure, household income, corporate income, infrastructure investment, exports, and connectedness to the global economy through cross-border flows of trade in goods, services, finance, people, and digital.

Exhibit E13

Our heat map analysis on 13 growth metrics highlights strong regional patterns.

Performance within emerging markets (quartile)[1] First Second Third Fourth

	▸ Regions[2]	Central Asia	East and Southeast Asia	South Asia	Central and Eastern Europe	Sub-Saharan Africa	Latin America	Middle East and North Africa
Description	**% of emerging market population**	1	36	30	7	12	10	5
	% of emerging market GDP	1	47	10	16	5	19	2
Economic performance	**Average GDP per capita** Real $ 2016	5,283	12,604	1,703	12,644	1,751	6,885	4,461
	Average GDP per capita growth CAGR, 1996–2016, %	5.5	4.4	3.7	3.1	2.5	1.9	1.6
Productivity drivers	**Domestic savings** CAGR, 1996–2016, %							
	Government effectiveness Change, 1996–2016, %							
	Market capitalization of listed domestic companies CAGR, 1996–2016, %							
	Global Innovation Index Rank change, 2013–16							
	Foreign direct investment CAGR, 1996–2016, %							
	Inflation Average, 2000–16							
	Government health expenditure CAGR, 2000–15, %							
	Government education expenditure CAGR, 1996–2016, %							
Income and demand drivers	**Household income** CAGR, 1996–2014, %							
	Corporate income CAGR, 1996–2014, %							
	Exports CAGR, 1996–2016, %							
	MGI Connectedness Index Score, 2016							
	Infrastructure investment CAGR, 2000–15, %							

1 Represents which quartile of the 71 economies the average of the archetype would fall in. For example, a green-colored square means the average of this archetype has a similar level in an indicator as top-quartile countries.

2 Central Asia: Azerbaijan, Kazakhstan, Kyrgyz Republic, Turkmenistan, and Uzbekistan. East and Southeast Asia: Cambodia, China, Hong Kong, Indonesia, South Korea, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. South Asia: Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Central and Eastern Europe: Belarus, Bulgaria, Czech Republic, Greece, Hungary, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Turkey, and Ukraine. Sub-Saharan Africa: Angola, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe. Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, and Venezuela. Middle East and North Africa: Algeria, Egypt, Iran, Jordan, Lebanon, and Morocco.

SOURCE: World Bank; OECD; IMF; WIPO; INSEAD; WFE; WHO; UNESCO; McKinsey Global Growth model; Global Insight; McKinsey Global Institute analysis

One insight of this analysis is that countries within geographic regions have more in common with each other than clusters defined by income level, growth archetype, or recent growth experience. Most outperformers are from Asia, for example, whereas none is from Latin America, the Middle East, or North Africa. Our analysis suggests that most countries still need to fix many elements of their economies in order to strengthen a pro-growth cycle. Even the best-performing region, East and Southeast Asia, faces challenges to sustain its growth. Some of the recent outperformers, including Azerbaijan, Belarus, and Kazakhstan, face slowing growth, partly because of the decline in resource prices in that period. Conversely, even in regions that have produced few outperformers, there are still standout countries.

- **Central Asian** economies are highly dependent on resources but have avoided the "resource curse" so far, thanks to high growth rates of savings and income, as well as improved government effectiveness. Domestic investment rates in Azerbaijan, Kazakhstan, and Turkmenistan, for example, average 32 percent of GDP in 2010–15, compared with 16 percent in Nigeria, another resource-dependent economy. While the region accounts for just 1 percent of the GDP of all 71 emerging economies in 2016, four of the five countries rank among the recent outperformers. Although growth has been slowing in Azerbaijan and Kazakhstan, momentum continues to be strong in Turkmenistan and Uzbekistan.

- **East and Southeast Asia** has been the best-performing region, lifted by the soaring economies of all seven long-term outperformers as well as four recent outperformers (Cambodia, Laos, Myanmar, and Vietnam). This is also the biggest economic region, accounting for 47 percent of the GDP of the emerging economies we examined. Sustaining growth remains challenging, nonetheless: some long-term outperformers in this region including Singapore and South Korea have experienced decelerating GDP growth in the past few years, given lagging rates of productivity improvement. More recent outperformers such as Cambodia and Vietnam are still "works in progress" and have varied shortcomings across productivity, income, and demand. Most countries in the region will need to ensure broad-based income growth and address rising income inequality.

- With mainly low- and lower middle-income countries, **South Asia** needs greater global connectedness and export diversity. For now, only India ranks among the outperformers. Exports contribute on average 18 percent of GDP in 2010–15, less than one-third the average for outperformers, and many countries in the region export mainly textiles and apparel. South Asia has significant inequality in part because a high percentage of its labor force still works in agriculture, though countries in the region are transitioning people into more productive sectors at a high rate. The region has an opportunity to improve the quality of its institutions and bureaucracy and could use its experience in information technology consulting services to boost the local digital economy and technology adoption in companies.

- **Central and Eastern Europe** accounts for 16 percent of the GDP of the 71 emerging economies, and GDP per capita, at more than $12,600, is the highest of all regions, yet only one of the 12 countries—Belarus—ranks as a recent outperformer. Capital investment in the region is low, and growth in wages and household consumption is sluggish. Countries in the region could reduce dependence on foreign direct investment by boosting domestic savings and tapping their supply of highly educated yet affordable workers to build knowledge-intensive services that may benefit from coming technological disruption. Some countries, such as Poland, have attracted companies from Western Europe and the United States, including Hewlett-Packard, which set up back-office and support operations. The region now employs nearly 300,000 people

in outsourcing and offshoring work.[50] However, total employment in Belarus, Bulgaria, Greece, Romania, and Ukraine has declined 1 percent annually or more since 2010, while remaining almost flat in Russia and the Czech Republic.[51]

- **Sub-Saharan Africa** is the region with the second-lowest average per capita GDP, at about $1,750, but several countries have made great strides in recent years. Labor productivity growth at 2.5 percent annually between 2010 and 2015—the highest rate outside Asia—and government effectiveness registered significant improvement in countries such as Rwanda and Côte d'Ivoire. For now, only one of the 15 countries—Ethiopia—ranks among the recent outperformers. In general, connectedness to other regions is poor and exports from countries in sub-Saharan Africa lack diversity. For example, more than 90 percent of goods exported from Nigeria and Angola are oil-related. Improving infrastructure and continuing to build out government effectiveness to attract foreign investment remain important opportunities for the region.

- **Latin America** accounts for almost 20 percent of the GDP of the 71 emerging economies, but it trails in all dimensions of the pro-growth agenda. All countries are in the bottom half of annual productivity growth rankings, without a single country of the 15 we analyzed breaking through into the outperformers' ranks. Stringent regulation, low savings and income growth, and fragmented rule of law are major obstacles. While the region has produced globally competitive companies—including Mexico's Grupo Alfa, Brazil's Embraer, and Argentina's Tenaris—companies can be fettered by restrictive labor laws and regulations.[52] Most countries in the region also have low savings and investment rates, and room to improve income inequality. On average, as of 2015, Latin America had the highest inequality of any region, as measured by the average Gini coefficient.[53]

- **Middle East and North Africa** countries also have no outperformers.[54] Indeed, the region on average has negative total factor productivity, limited income and demand growth, and the lowest improvement in education spending. A lack of economic diversity hobbles some countries in the region—about 95 percent of Algeria's exports of goods and more than 60 percent of Iran's are oil-based products, for example.[55] It is also a region with few large, publicly listed companies. This region was the only one where emerging economies' per capita GDP declined in recent years, falling 0.6 percent per year from 2010 to 2015, while labor productivity grew only 0.9 percent annually in the same period. Recent MGI research found that 73 percent of GDP growth in the region from 2000 to 2015 was explained by an expanding workforce, while only 27 percent was attributable to labor productivity growth.[56] The region's policy makers could improve business productivity by encouraging the adoption of technology in production, stimulating consumption, and making bureaucracies more professional.

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50 *A new dawn: Reigniting growth in Central and Eastern Europe*, McKinsey Global Institute, December 2013, on McKinsey.com.

51 From the Conference Board Total Economy Database, conference-board.org.

52 *Where will Latin America's growth come from?* McKinsey Global Institute, April 2017, on McKinsey.com.

53 The Gini coefficient measures income distribution in a country. The higher the score, the higher the levels of inequality. Data collected between 2010 and 2015.

54 Saudi Arabia and United Arab Emirates are classified by the World Bank as high-income economies and thus are not included in our analysis here.

55 *The Atlas of Economic Complexity*, Harvard University, Center for International Development, 2018, atlas.cid.harvard.edu.

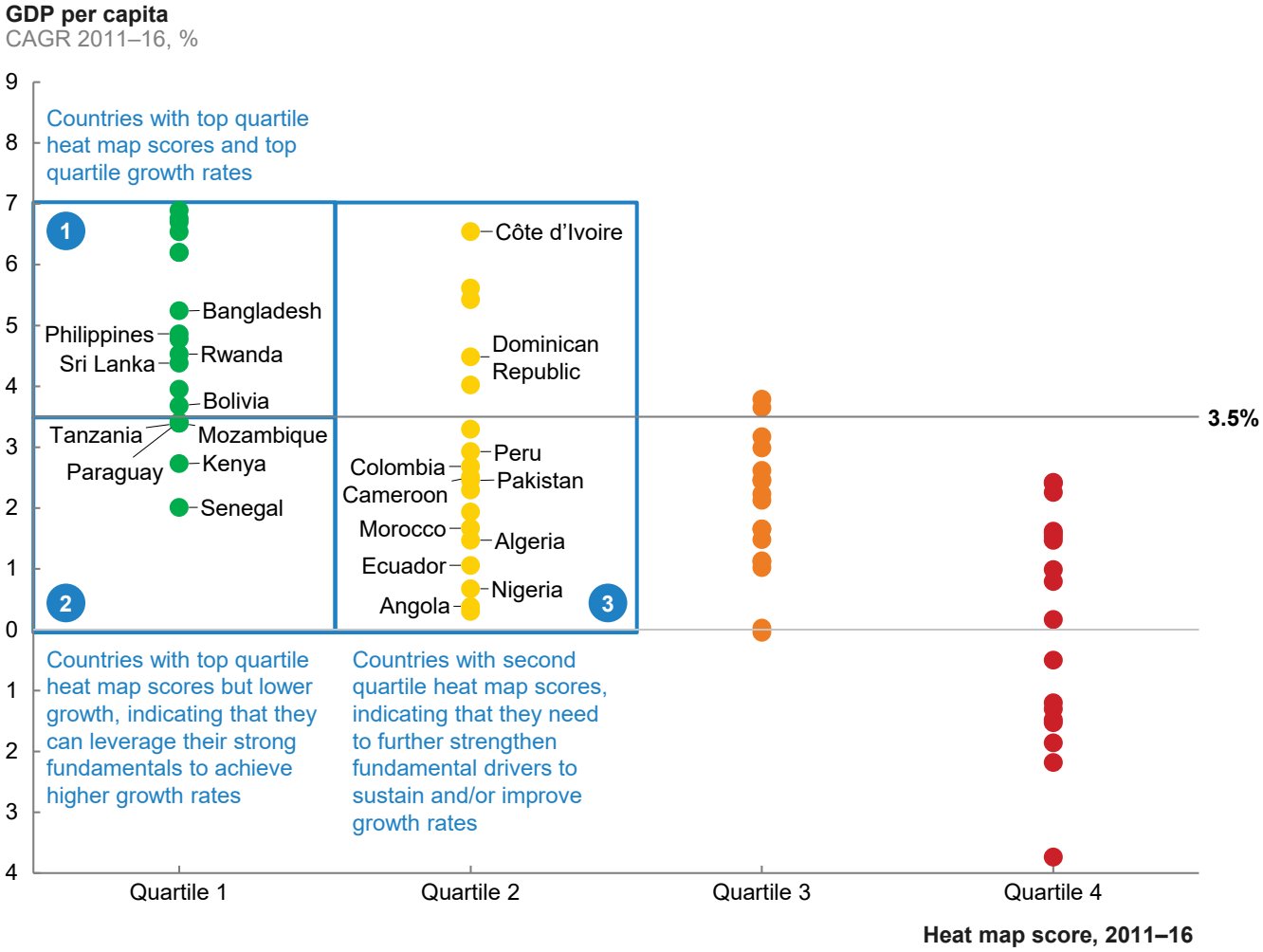
56 *Where will Latin America's growth come from?* McKinsey Global Institute, April 2017, on McKinsey.com.

Looking to the next outperformers

Across this varied global landscape, we identify individual countries that are aspiring newcomers to the list of outperformers. These are countries that are putting in place and strengthening their economic fundamentals, in accordance with the elements of our pro-growth agenda, as mapped in the heat map analysis. Some of them are already achieving GDP per capita growth that exceeded 3.5 percent in 2011 to 2016. Exhibit E14 calls out a number of these potential future outperformers, which fall into three groupings. Five countries—Bangladesh, Bolivia, the Philippines, Rwanda, and Sri Lanka—exceeded the 3.5 percent annual per capita growth rate in 2011 to 2016 and also rank in the top 25 percent of our performance index. A second cluster of countries consists of Kenya, Mozambique, Paraguay, Senegal, and Tanzania. These countries have moved into the top quartile of our pro-growth performance scores, reflecting improvement in key productivity, income, and demand drivers, but have not yet achieved consistent 3.5 percent GDP per capita growth. Two other countries achieve the 3.5 percent GDP growth benchmark, but their pro-growth performance is less exceptional, and puts them in the second quartile. They are Côte d'Ivoire and Dominican Republic.

Exhibit E14

Countries that achieved high GDP per capita growth and strong momentum on fundamental indicators since 2011 have the potential to join the next wave of outperformers.



NOTE: Heat map score is based on each country's performance across the 13 drivers of growth. Results are normalized for each indicator and summed with a weight based on the indicator's simple correlation to GDP per capita growth. Quartiles represent where the total country score falls. Overall correlation between heat map scores and GDP per capita growth is 0.8.

SOURCE: McKinsey Global Institute analysis

Developing economies can continue to be engines of global economic growth well into the future, lifting many more millions of people out of poverty, expanding the middle class, and boosting global GDP growth. To realize these potential benefits, our research suggests, will require policy makers to hew to a pro-growth agenda based on boosting productivity, income, and demand, as well as on the expansion of a vibrant private sector, characterized by highly competitive firms that cut their teeth in domestic competition before becoming global players. That combination, which has proved so successful for the outperformers examined in this report, will likely remain key elements for future development, in times of change. The rise of automation and shifting trade patterns, among other trends, present new opportunities, with potentially big rewards for those sufficiently flexible to harness them. The 18 outperformers have blazed the trail. Now it is the turn of other developing countries—and advanced economies—to learn from that experience and keep the momentum going (Exhibit 15). The global economy, and millions of people who still live in poverty, will be more prosperous as a result.

Exhibit E15

Key indicators linked to growth in emerging economies.

Performance within emerging markets (quartile)[1] First Second Third Fourth

Archetype[2]	Economy	GDP per capita Real $ 2016	Real GDP per capita[3] CAGR, 1965–2016, %	Real GDP per capita CAGR, 1996–2016, %	Domestic savings CAGR, 1996–2016, %	Government effectiveness[4] Change, 1996–2016	Market cap of listed companies CAGR, 1996–2016, %	Global Innovation Index[5] Rank change, 2013–16	Exports CAGR, 1996–2016, %	MGI Connectedness Index[6] Score, 2016
Long-term outperformers	China	6,894	7.3	8.6	10	33	10	4	14	21
	South Korea	25,459	6.2	3.5	4	20	11	1	9	14
	Singapore	52,601	5.2	2.9	5	5	7	1	7	51
	Indonesia	3,974	3.6	2.6	4	40	5	-6	4	2
	Hong Kong	36,726	4.0	2.6	2	23	10	-2	6	21
	Malaysia	11,028	3.8	2.5	3	11	0	-2	4	8
	Thailand	5,901	4.3	2.4	3	6	7	0	6	8
	Average	**20,369**	**4.9**	**3.6**	**5**	**20**	**7**	**-1**	**6**	**18**
Recent outperformers	Myanmar	1,420	4.2	8.9	6	17				
	Azerbaijan	5,859	2.5	8.2	19	48	0	7	14	
	Turkmenistan	6,987	3.2	6.1	16	1				
	Cambodia	1,078	5.5	5.8	16	2		6	16	1
	Belarus	6,219	2.7	5.6	8	-6		-3	6	2
	Laos	1,643	4.3	5.4	13	13			6	1
	India	1,861	3.5	5.3	8	9	7	0	0	7
	Kazakhstan	10,570	2.3	5.2	9	58	13	3	3	4
	Vietnam	1,770	4.8	5.1	8	31	9	9	14	8
	Uzbekistan	1,961	2.6	5.1	7	47	8		6	
	Ethiopia	511	2.3	4.8	4	44	11	5		
	Average	**3,626**	**3.4**	**6.0**	**10**	**24**	**7**	**4**	**8**	**4**
Very recent accelerators	Sri Lanka	3,759	3.7	4.6	8	-1	9	2	4	1
	Mozambique	515	2.8	4.6	13	-30		18	14	1
	Rwanda	739	2.0	4.5	14	93		13	14	1
	Bangladesh	1,030	1.9	4.2	8	0	9	1	12	1
	Poland	15,049	3.6	4.0	5	0	13	2	8	8
	Dominican Rep.	6,909	3.4	3.9	5	-1		0	4	1
	Peru	6,089	1.3	3.3	6	-8	7	-1	6	1
	Ghana	1,708	0.9	3.2	3	-3	-1	-8	6	1
	Philippines	2,753	1.7	2.9	5	14	4	9	5	2
Consistent growers	Slovak Rep.	19,238	3.9	3.7	4	15	4	0	9	
	Bulgaria	7,929	2.5	3.7	6	14	35	0	3	2
	Romania	10,081	2.5	3.4	5	5	14	-4	9	3
	Tanzania	867	2.2	3.1	14	8	5	7	9	
	Turkey	14,071	2.7	3.0	6	5	5	12	6	3
	Serbia	5,852	3.0	3.0	6	81	-1	-9	10	2
	Chile	15,020	2.6	2.9	3	-8	4	-4	4	2
	Uganda	662	2.3	2.8	8	7		-8	9	1
	Morocco	3,196	2.8	2.6	4	0	0	11	6	2

1 Represents which quartile of the 71 economies the growth rate of each indicator falls in, except if it is in the top decile in terms of level (eg, for government effectiveness, Singapore is green as it has the highest score among all countries).
2 A note on archetypes: Long-term outperformers achieved more than 3.5% GDP per capita CAGR over a 50-year period and outpaced US growth for more than 36 years. Recent outperformers achieved more than 5% CAGR over a 20-year period. Middlers achieved CAGR of 0.95–3.5% over a 50-year period and include very recent accelerators (more than 3.6% CAGR between 2006–16), consistent growers, and volatile growers (exhibited high coefficient of variation in at least one ten-year interval). Underperformers had CAGR of less than 0.95% over a 50-year period.
3 Starting point is 1965 or earliest year available; simple averages have been taken across indicators.
4 The perceived quality of public services, civil service, and policy formulation and implementation, as measured by the World Bank's Government Effectiveness Score.
5 An annual ranking of national innovation in 80 fields, such as politics, education, infrastructure, and business sophistication, by Cornell University, INSEAD, and WIPO. Rank change reflects movement within emerging markets only.
6 McKinsey Global Institute's ranking of 117 countries based on total flows of goods, services, finance, people, and data and communication, adjusting for country size.

SOURCE: World Bank; OECD; IMF; WIPO; INSEAD; WFE; WHO; UNESCO; McKinsey Global Growth model; Global Insight; McKinsey Global Institute analysis

Exhibit E15 (continued)

Key indicators linked to growth in emerging economies (continued).

Performance within emerging markets (quartile)[1] First Second Third Fourth

Archetype[2]	Economy	GDP per capita Real $ 2016	Real GDP per capita[3] CAGR, 1965–2016, %	Real GDP per capita CAGR, 1996–2016, %	Domestic savings CAGR, 1996–2016, %	Government effectiveness[4] Change, 1996–2016	Market cap of listed companies CAGR, 1996–2016, %	Global Innovation Index[5] Rank change, 2013–16	Exports CAGR, 1996–2016, %	MGI Connectedness Index[6] Score, 2016
Consistent growers (continued)	Hungary	14,840	2.1	2.6	3	-12	1	-2	10	8
	Nepal	682	1.8	2.5	-3	-20		1	-1	
	Egypt	2,724	2.5	2.4	0	-9	-8	-4	5	2
	Czech Rep.	21,707	1.7	2.2	3	14	1	-1	8	8
	Colombia	7,526	2.3	2.2	4	24	3	-3	4	1
	Pakistan	1,182	2.2	1.8	1	-1	7	4	3	1
	Ecuador	5,210	1.5	1.5	5	2	-3	-14	3	1
	Portugal	22,347	2.6	0.9	1	-1	3	1	4	3
Volatile growers	Nigeria	2,458	1.0	3.3	6	-10	-2	-2	8	1
	Angola	3,607	1.1	3.2	-3	-11			11	2
	Algeria	4,846	1.5	1.9	4	39		11	1	
	Iran	5,758	0.9	1.7	3	21	6	19	2	
	Paraguay	3,928	2.4	1.5	2	9	0	2	3	1
	Honduras	2,138	1.1	1.4	-2	1		0	3	1
	Kenya	1,143	1.5	1.4	3	10	5	10	4	1
	Guatemala	3,100	1.3	1.3	1	-7		-9	3	1
	Mexico	9,707	1.5	1.2	2	-3	4	1	5	9
	Argentina	10,149	1.0	1.2	1	0	1	-19	3	2
	Brazil	10,826	2.1	1.2	3	-1	3	-2	6	3
	Jordan	3,258	1.7	1.0	-3	7	-5	-16	3	4
	Greece	22,736	1.7	0.5	-1	-19	-6	3	5	3
Middlers Average		**7,060**	**2.1**	**2.6**	**4**	**6**	**4**	**1**	**6**	**3**
Underperformers	Russian Fed.	11,099	0.4	3.4	4	12	-1	7	5	
	Kyrgyz Rep.	1,038	0.4	3.1	0	-24			2	
	Zambia	1,622	-0.1	2.8	1	34	9	-10	18	1
	Nicaragua	1,946	-0.1	2.6	6	-7		-6	9	1
	Ukraine	2,906	-1.1	2.6	1	5	-3	8	-1	4
	Bolivia	2,458	1.0	2.4	5	-17		-13	4	1
	El Salvador	3,803	0.9	1.6		23		-13	5	1
	Senegal	1,093	0.1	1.5	7	-21		-10	5	1
	Cameroon	1,357	0.8	1.4	3	23		-3	2	1
	South Africa	7,504	0.6	1.3	3	-21	6	0	3	3
	Venezuela	14,462	0.1	0.8	-4	-38	-6	-11	-4	1
	Côte d'Ivoire	1,563	0.2	0.7	4	-18		12		2
	Lebanon	6,984	0.6	0.0		-17	5	2	7	3
	Zimbabwe	909	0.0	-1.8		-39	-1		-2	
	Average	**4,196**	**0.3**	**1.6**	**3**	**-8**	**1**	**-3**	**4**	**2**

1 Represents which quartile of the 71 economies the growth rate of each indicator falls in, except if it is in the top decile in terms of level (eg, for government effectiveness, Singapore is green as it has the highest score among all countries).
2 A note on archetypes: Long-term outperformers achieved more than 3.5% GDP per capita CAGR over a 50-year period and outpaced US growth for more than 36 years. Recent outperformers achieved more than 5% CAGR over a 20-year period. Middlers achieved CAGR of 0.95–3.5% over a 50-year period and include very recent accelerators (more than 3.6% CAGR between 2006–16), consistent growers, and volatile growers (exhibited high coefficient of variation in at least one ten-year interval). Underperformers had CAGR of less than 0.95% over a 50-year period.
3 Starting point is 1965 or earliest year available; simple averages have been taken across indicators.
4 The perceived quality of public services, civil service, and policy formulation and implementation, as measured by the World Bank's Government Effectiveness Score.
5 An annual ranking of national innovation in 80 fields, such as politics, education, infrastructure, and business sophistication, by Cornell University, INSEAD, and WIPO. Rank change reflects movement within emerging markets only.
6 McKinsey Global Institute's ranking of 117 countries based on total flows of goods, services, finance, people, and data and communication, adjusting for country size.

SOURCE: World Bank; OECD; IMF; WIPO; INSEAD; WFE; WHO; UNESCO; McKinsey Global Growth model; Global Insight; McKinsey Global Institute analysis

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